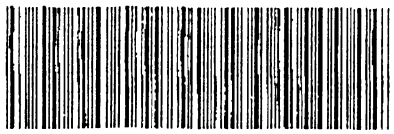

ORIGINAL

FILED
IN COUNTY CLERK'S OFFICE
A.M. MAY 08 2006 P.M.
PIERCE COUNTY, WASHINGTON
KEVIN STOCK, County Clerk
BY DEPUTY

SUPERIOR COURT OF WASHINGTON FOR PIERCE COUNTY

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM JOINT VENTURE, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington corporation,

Plaintiff,

vs.

MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE DOE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; ROBERT COLEMAN and JANE DOE COLEMAN; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC, a Washington Limited Liability Company,

Defendants.

NO. 04 2 10247 8

AFFIDAVIT OF STEVEN W. DAVIES RE JOINDER IN DEFENDANTS BRYNE'S AND REID'S MOTION FOR SUMMARY JUDGMENT FOR DISMISSAL OF PLAINTIFF'S CLAIMS

STATE OF WASHINGTON)
: ss.
County of Pierce)

Steven W. Davies, being first duly sworn upon oath deposes and states as follows:

Attached hereto is the original signature page signed by Mike Price of Joint Declaration of Mike Price and Tom Price in Support of Joinder in Defendants Byrne's and Reid's Motion for

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Tacoma, Washington 98466-6225
(253) 565-3400 • Fax (253) 564-5356
E-mail - Attorneys@cdsps.com

Summary Judgment for Dismissal of Plaintiffs' Claims which was filed with the court on April 28, 2006.

Further your affiant sayeth naught.

STEVEN W. DAVIES

SUBSCRIBED and SWORN to before me this 3rd day of May, 2006.

Ruth E. LaFranchi

NOTARY PUBLIC in and for the state of Washington, residing at: Tacoma WA
My commission expires: 10-26-09

RUTH E. LaFRANCHI NOTARY PUBLIC 10-26-09 STATE OF WASHINGTON

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ORIGINAL

SUPERIOR COURT OF WASHINGTON FOR PIERCE COUNTY

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM JOINT VENTURE, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington corporation,

Plaintiff,

vs.

MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE DOE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; ROBERT COLEMAN and JANE DOE COLEMAN; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC, a Washington Limited Liability Company,

Defendants.

NO. 04 2 10247 8

JOINT DECLARATION OF MIKE PRICE AND TOM PRICE IN SUPPORT OF JOINDER IN DEFENDANTS BYRNE'S AND REID'S MOTION FOR SUMMARY JUDGMENT FOR DISMISSAL OF PLAINTIFFS' CLAIMS

COME NOW, Mike Price and Tom Price, defendants in the above-captioned matter, and declare as follows:

This declaration is based upon personal knowledge, subsequent to review of records and files herein, and in support of joinder in defendants Byrne's and Reid's Motion for Summary Judgment for Dismissal of Plaintiffs' Claims.

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Both Mike Price and Tom Price were members of NW, LLC. Neither were managers of this LLC and neither were involved with day-to-day operations. Further, said defendants were not members of NWCLF, LLC, and were not members of Loan Holdings, LLC.

Mike Price and Tom Price had no knowledge and had nothing to do with the assignment of loans from NW, LLC to NWCLF, LLC. More specifically, said defendants had nothing to do with the assignments of deeds of trust and notes concerning Graham Square dated January 18, 1998, February 25, 1999, and November 27, 1999.

In addition to the above, said defendants did not benefit personally in any way relative to the transactions involved with plaintiffs' claims.

We declare under the penalty of perjury of the laws of the State of Washington that the foregoing is true and correct.

Dated this _____ day of April, 2006

MIKE PRICE

TOM PRICE

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SUPERIOR COURT OF WASHINGTON FOR PIERCE COUNTY

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM JOINT VENTURE, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington corporation,

Plaintiff,

vs.

MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE DOE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; ROBERT COLEMAN and JANE DOE COLEMAN; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC, a Washington Limited Liability Company,

Defendants.

NO. 04 2 10247 8

DECLARATION OF TOM PRICE IN SUPPORT OF DEFENDANTS' PRICE MOTION FOR AN AWARD OF REASONABLE EXPENSES, INCLUDING ATTORNEY'S FEES AND COSTS

COMES NOW Tom Price and declares as follows:

This declaration is based upon personal knowledge, subsequent to review of records and files herein, and in support of Defendants' Price Motion for an Award of Reasonable Expenses, Including Attorney's Fees and Costs.

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On February 6, 2006, I met with plaintiff's counsel for the purpose of reviewing all documents and answering any questions he might have. I candidly and truthfully answered all questions. At the end of this meeting, I again requested dismissal from this lawsuit. It was, for no justifiable reason, refused.

I declare under penalty of perjury of the laws of the State of Washington that the foregoing is true and correct.

Dated this _____ day of June, 2006 .

_____

TOM PRICE

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(253) 565-3400 • Fax (253) 564-5356
E-mail - Attorneys@cdsps.com

On February 6, 2006, I met with plaintiff's counsel for the purpose of reviewing all documents and answering any questions he might have. I candidly and truthfully answered all questions. At the end of this meeting, I again requested dismissal from this lawsuit. It was, for no justifiable reason, refused.

I declare under penalty of perjury of the laws of the State of Washington that the foregoing is true and correct.

Dated this 14th day of June, 2006.

TOM PRICE

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“B”

Judge Katherine M. Stolz
Hearing Date: May 12, 2006
Hearing Time: 9:00 AM

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation; TIMOTHY JACOBSON, HILARY GRENVILLE, Plaintiffs, v. MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company, Defendants.	NO. 04-2-10247-8 **DECLARATION OF ROBERT COLEMAN IN RESPONSE TO DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT**

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I, Robert Coleman, hereby declare as follows:

1. I am competent to testify and make the following statements based upon my own personal knowledge and review of documents.

2. I was a member and manager of an entity known as NW, LLC until my resignation in or about January of 2001. The members of NW, LLC were myself, Kevin Byrne, James Reid, Mike Price and Tom Price. Kevin Byrne was a co-manger of NW, LLC and also had the title of "CEO" – chief executive officer. NW, LLC was formed after NW Community Bank was sold in 1995. Kevin Byrne, Mike Price, James Reid and I were included in the original group of founders and directors of NW Community Bank. Kevin Byrne was the CEO of this bank and responsible for overseeing all lending operations. My primary responsibilities at NW Community Bank were operations and administration (all the non-lending areas of the banking business).

3. NW, LLC was set up to acquire real estate loans, securitize them and sell the loans on the market. As originally envisioned, NW, LLC was going to originate some loans as well, but that aspect of the business never really panned out.

4. A little background about myself, before I go on to other issues. I have worked in the banking and finance industry for approximately 37 years. However, the vast majority of my experience relates to administrative, accounting and

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5. From the outset of the formation of NW, LLC it was always clear that this was Kevin Byrne's business. He called all the shots. He was the only one of the members who had any meaningful experience in the real estate lending industry.

6. Throughout my tenure as a member, manager and officer of NW, LLC, I never signed off on any agreements or contracts of any significant nature without Kevin Byrne's express knowledge, consent and approval. This is especially true regarding the transfers of any significant funds or the execution of any documentation which affected a particular loan or loan portfolio. These types of matters, in particular, were done at the direction and with the approval of Kevin Byrne.

7. Kevin Byrne set up a new LLC in or about 1998 known as NW Commercial Loan Fund, LLC ("NWCLF"). NW, LLC was to be the manager of this new entity. In reality, Kevin was the effective manager and sole decision-maker of NWCLF. He made or approved all the investment decisions and approved or directed all loan disbursements. To my knowledge, no significant activity was undertaken on behalf of NWCLF without Kevin Byrne's express knowledge, consent, or approval. In fact, to the best of my knowledge, the vast majority of any business decisions regarding NWCLF were done at the specific direction of Kevin Byrne. Based on my experience, NWCLF did not enter into any significant

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transactions without Kevin Byrne's express approval (and most often at his specific direction).

8. I have read the Declaration of Kevin Byrne, submitted in this action in support of his summary judgment motion. It is full of half-truths and outright fabrications. At paragraph 8 of his declaration, he contends that Steven Hansen (a one-time CFO of NW, LLC) and I assigned deeds of trust from NW, LLC to NWCLF and that this was done without Kevin Byrne's knowledge or approval. This is untrue. Any assignments that either I or Steven Hansen executed were done at the specific direction of Kevin Byrne. He knew these deeds of trust were being assigned because he directed this to be done. For Mr. Byrne to suggest that he was not aware of these assignments is simply flat out false. At the time, both Steve and I trusted Kevin Byrne. Kevin has a lot of experience in the banking industry and in the real estate lending industry in particular. I naively followed his instructions, trusting that he knew what he was doing. As I learned later, Kevin was a master at getting other people to unwittingly take actions that were not appropriate - in an effort to cover his tracks and insulate himself from liability for his wrongful acts. Unfortunately, until late 2000, I had no idea that the proverbial fox (Byrne) was running the henhouse (NW, LLC) and I routinely signed and approved documents at Kevin's direction. I now regret many of those actions.

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because I trusted him and respected his lending knowledge. I now regret many of those actions.

9. NW, LLC became involved in what was known as the "Graham Square Project" in or about 1995. This was one of Kevin Byrne's pet projects. It was a series of contiguous parcels of property in Graham, Washington. The owner/developer, Al Olsen, intended to construct a shopping center and other commercial businesses at this location. Kevin worked very closely with Al Olsen on this project. On Kevin Byrne's advice NW, LLC loaned several million dollars on this project, as a secondary lender behind the construction lender (who I believe was West Coast Bank). This project was the subject of frequent discussions at NW, LLC member meetings. It proceeded slower than expected and was costing much more money than expected. The developer began to have problems with the project early on. Despite this fact, Kevin Byrne repeatedly assured the other members of NW, LLC that the Graham Square Project was a winner and that NW, LLC's loans were secure. On or about 1997, at a member meeting of NW, LLC, it was agreed that NW, LLC would attempt to pull out of the Graham Square Project by the end of the year. It was envisioned that a new LLC would be formed comprised of the members of NW, LLC and that this new LLC would acquire NW, LLC's interest in the Graham Square Project. Attached hereto and incorporated by reference as EXHIBIT A is a true and correct copy of NW, LLC Member Meeting Minutes that I prepared on or about

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September 10, 1997. To the best of my knowledge these minutes accurately summarize the discussions held at that time. The decision was made to form a new LLC to buy out NW, LLC's "equity" position in the Graham Square Project.

10. At this same meeting, NW, LLC approved a resolution, on Kevin Byrne's advice, to have the individual members of NW, LLC acquire NW, LLC's ownership interest in the entities that owned the Graham Square Project (Graham Square I, LLC and Graham Square II, LLC). Attached hereto and incorporated by reference as EXHIBIT B is a true and correct copy of the resolution entered into September 10, 1997 on behalf of NW, LLC whereby Kevin Byrne, Mike Price, Tom Price, Jim Reid and I acquired an ownership interest in the LLCs that owned the Graham Square Project.

11. NW, LLC members met again on or about November 12, 1997. Attached hereto and incorporated by reference as EXHIBIT C is a true and correct copy of the minutes that I prepared from this meeting. To the best of my knowledge these minutes accurately summarize the discussions at that meeting. Of note, Kevin Byrne requested at that meeting that the Graham Square Project be removed from NW, LLC's agenda and that project updates would be discussed at separate partner meetings.

12. Kevin Byrne has a longstanding professional (and I believe personal) relationship with attorney Tom Oldfield. Mr. Oldfield represented NW, LLC, Kevin

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Byrne and I believe NWCLF simultaneously. Mr. Oldfield attended many NW, LLC member meetings, especially in late 2000, when NW, LLC started to experience financial difficulties. Mr. Oldfield was in almost constant contact with Kevin when NW, LLC began to unwind, starting in or about December of 2000.

13. Attached hereto and incorporated by reference as EXHIBIT D is a true and correct memo I wrote on or about 12/8/00 where I outlined the serious concerns I had about Mr. Oldfield and his conflict of interest. For some reason the copy of this memo got chopped up, so that portions of it are duplicated on the various pages. However, the entire memo does appear to be included on EXHIBIT D and I believe that it accurately reflects, when read as a whole, the memo I wrote in December 2000. At this time, he was still representing NW, LLC, NWCLF and Kevin Byrne, personally. It had become apparent by this time that Kevin Byrne had duped all of the members in NW, LLC. I learned that Kevin had misappropriated funds for his personal benefit and made various misrepresentations about the actual financial condition of the company to the members and to third parties. The conflict of interest for Mr. Oldfield was brought to his attention at more than one meeting. Oldfield insisted that he did not have a conflict and did not need to withdraw from representing NW, LLC (or NWCLF for that matter). However, at the direction of Byrne, Oldfield withheld critical information from me and other NW, LLC members and blocked our ability to hold a special member meeting to confront Mr. Byrne

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with our concerns. Mr. Oldfield's actions certainly contributed to Kevin Byrne's opportunity to gain more time to cover his tracks and to further insulate himself from liability.

I hereby declare under penalty of perjury in the State of Washington that the foregoing statements are true and correct to the best of my knowledge and belief.

Dated this 4TH day of May, 2006 at FRIDAY HARBOR, Washington.

Robert Coleman

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Attorneys At Law PLLC
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September 10, 1997
NW,LLC Member Meeting Minutes

The Members of NW, LLC met at the offices of NW, LLC located at 7610 40th St. W., University Place, WA. All Members were present. Chairman Price called the meeting to order at 8:30 a.m..

Minutes of the August 13, 1997 meeting were approved as presented. *(Motion J Reid, 2nd T Price)*

President Coleman reviewed the 8-31-97 Comparative Interim Financial Report.

President Coleman reviewed the Preferred Member Offering Status. It is anticipated the Offering will be completed by the end of this month.

CEO Byrne discussed current warehouse facility proposals. Bank United is going to loan committee within the next two weeks. LaSalle Bank will be visiting NW,LLC on Friday, September 12, 1997 and is expected to have a proposal by the end of the month. CGA Insurance Company is scheduled to visit NW,LLC the week of the September 15, 1997 and is also expected to have a proposal by the end of the month. CGA is a newly formed company founded by former Senior Management of FGIC Monoline Insurance Company. They are an exciting prospect since they are a AAA rated company and their preliminary bid contains excellent pricing plus an insurance wrap.

CEO Byrne advised that NW,LLC is applying to Harbor Community Bank for a $250,000 unsecured line of credit. This will give the company an additional cushion to meet anticipated cash flow requirements.

CEO Byrne reviewed in depth the Graham Square Project status. It is managements' intent to have the Graham Square project completely out of NW by the end of the year. It appears that financing is being finalized via Sterling Savings. Current NW,LLC members will form a separate LLC to buy out NW's equity interest in the Graham Square Project. CEO Byrne reviewed financial projections and the members arrived at $625,000 as a reasonable purchase price for all of NW's equity in the Graham Square project. Each member is responsible for coming up with $125,000.00 by October 31, 1997. This is in addition to the $200,000 capital call also due by October 31, 1997.

President Coleman provided a data processing update. It does not appear that NW's current provider can support all of the requirements of CMBS processing and servicing. NW is investigating CMBS software providers and will make a decision in the very near future. Management is working with FiServ and Westside Community Bank to arrange for an assumption of NW's contract with FiServ. Hopefully this arrangement will be consummated within the next 30 days.

CEO provided an update on Barksdale, LLC - basically the 1st building has been permitted, the 2nd building is still in the permitting phase, and the 3rd & 4th buildings are on hold. Additional information will be provided at the next member meeting.

There being no further business, the meeting adjourned at 10:00 a.m..

Respectfully,

Robert J. Coleman
Secretary

NW, Limited Liability Company

RESOLUTION

WHEREAS, NW is a member of Graham Square I, L.L.C. and Graham Square II, L.L.C., and is also a lender to Graham Square I, L.L.C. and Graham Square II, L.L.C., and

WHEREAS, NW took an equity position in Graham Square I, L.L.C. and Graham Square II, L.L.C. as an "equity kicker" related to such loans, and

WHEREAS, the development plans for Graham Square I, L.L.C. and Graham Square II, L.L.C. have changed, resulting in a change in the nature of NW's investment, and make it advisable for NW to have no more than a nominal equity position in either of such limited liability companies, and

WHEREAS, the present value of NW's equity position in such LLC's is nominal, and the members of NW have made valuable contributions to NW constituting adequate consideration for the transfer to the members of all but a nominal amount of NW's equity position in Graham Square I, L.L.C. and Graham Square II, L.L.C., NOW, THEREFORE BE IT

RESOLVED, that NW L.L.C. shall assign to each of the following named persons that perecentage of NW's Membership Interests in Graham Square I, L.L.C. and Graham Square II, L.L.C. set forth opposite such grantor's name:

Name	Membership Interest
Kevin M. Byrne	9.9%
Robert J. Coleman	9.9%
Michael. A. Price	9.9%
Thomas W. Price	9.9%
James R. Reid	9.9%

RESOLVED FURTHER that NW shall retain a Membership Interest of one-half of one percent in each of such limited liability companies.

Resolution effective September 10, 1997

Robert J. Coleman, Secretary

NW 0670

EXHIBIT B

000296

KB 11936

November 12, 1997
NW,LLC Member Meeting Minutes

The Members of NW, LLC met at the offices of NW, LLC located at 7610 40th St. W., University Place, WA. All Members were present except Tom Price. . Chairman Price called the meeting to order at 8:15 a.m..

Minutes of the October 8, 1997 meeting were approved as presented. *(Motion M. Price, 2nd K Byrne)*

President Coleman reviewed the 10-31-97 Comparative Interim Financial Report. Coleman noted the $141,666 charge to Contract Services in September 1997 was reversed and processed to the appropriate payroll accounts in October. As previously noted, this amount represents the amount taken in draws by CEO Byrne and President Coleman in 1996.

CEO Byrne reported two problem loans. Eric Jensen $144,000.00 is pledged at U S Bank and NW will need to payoff U S Bank since the loan is over 60 days past due. Management is working with the borrower in hopes of avoiding the time and expense of foreclosure. Sarela Inc., $30,000.00 is severely past due. Management hopes to collect this loan prior to year end.

President Coleman proudly announced the completion of the Preferred Member Offering wherein $2,112,190.48 was raised.. Members were provided with a Final Preferred Member Subscriber List as of the Offering expiration date.

CEO Byrne discussed current warehouse facility proposals. Bank United appears to be out of the picture. LaSalle Bank continues to be vague with their responses. However, CGA Insurance appears to be serious and management will aggressively pursue this alternative. Management will provide a detailed update at the December 10, 1997 Member Meeting.

CEO Byrne expressed his desire to remove the Graham Square Project and Barksdale Project from NW's Agenda. Since NW,LLC is no longer an equity partner in either project these project updates will be provided in separate partner meetings.

The NW Christmas party has been scheduled for December 13, 1997 at the new Byrne estate. Invitations will be sent to all members.

There being no further business, the meeting adjourned at 10:15 a.m..

Respectfully,

Robert J. Coleman
Secretary

EXHIBIT C

12-08-00

Attorney conflict – Oldfield representing NW LLC and CEO Byrne personally.

Byrne had Oldfield draw up a Resolution this past week apparently stating that NW members voted to liquidate the company at the last Member Meeting. Byrne had member Price sign the Resolution when he came by on another matter and I suspect member Reid also has signed the resolution.

This is highly unusual since Secretary Coleman usually records all member actions via the minutes and has the minutes reviewed and approved at the following member meeting. There was no reason for NW to engage Mr. Oldfield to draw up this specific resolution at this time. There certainly was no reason the Resolution had to be signed at this time, and there is a real question why Managing Member and Member Secretary Coleman wasn't even involved in the discussion of this action nor has he even received a copy of said resolution. In fact, Coleman does not believe a formal vote was taken at the meeting. The primary discussion point was the removal of members Mike and Tom Price from the board with the reasoning being that if NW is to continue operations and obtain additional credit lines, etc., it would be very difficult to do so with members Mike and Tom Price still active on the board. This is what I believe was the main item of discussion by CEO Byrne at the last member meeting. The specific topic of liquidation was mentioned but detailed discussion was postponed until the next member meeting so that NW could prepare additional financial information for consideration of possible alternatives, including liquidation.

Based upon the discovery of additional information wherein CEO Byrne and at least one other existing NW LLC member (assumed to be Reid) plan to form a new company utilizing the resources and assets of NW to do so but excluding members Coleman, M Price and T Price. Something drastic need to be done as soon as possible. I believe CEO Byrne needs to be removed as CEO and Managing Member and attorney Oldfield removed as company counsel effective immediately in order for NW to complete an orderly liquidation or change directions and continue operations.

Coleman has discovered that CEO Byrne is indeed in the process of forming a new company and is utilizing NW resources to do so. It is suspected that attorney Oldfield and member Reid are also involved in this new company formation. Senior Vice President Marc Thomaes, currently employed at NW's New Jersey office, is also involved and is, in fact, the point person for establishing the new company.

EXHIBIT D

time for attorney Oldfield to remove himself as NW's attorney. He has major conflict since his law firm is a major tenant in the NW building owned by Byrne. He has also represented Byrne in several of his other dealings, including Fountain Hills. I wonder if Mr. Oldfield has any information on file regarding Fountain Hills since he was involved in discussions with Byrne relative to Bill Dodge's request for payment at closing of a disputed catch basin expense.

Ron – it is very apparent to me that the Byrne/Oldfield strategy is to get me to blow up and quit the company. This would certainly clear the way for them to accomplish everything they are attempting to do and place the blame on "the other" Managing member, yours truly.

Byrne and Oldfield are exerting abnormal pressure on Coleman relative to the wind down of NW LLC, insisting the wind down needs to be completed by December 31, 2000. Coleman and CFO Barka have established a projected time line to accomplish the majority of the accounting requirements to wind down the company. However, NW is very complicated from an accounting perspective since there are several companies involved.

CEO Byrne has stated the primary reason to wind the company down and eliminate the rest of the accounting staff ASAP is because of cost. Yet the New Jersey office is still operating with three full time people at a significant cost to NW. Obviously if the company is indeed winding down, the last people out the door should be the tax and accounting people. Coleman still believes there is an opportunity for NW to continue operations going in a different direction. It would certainly be in the best interest of everyone if NW could continue operations and earn its' way out of the current situation over time. NW has no chance to survive under its' current structure. CEO Byrne has clearly brought NW to its' knees and has benefited significantly in the process. He misappropriated funds on the Fountain Hills loan payoff which was a loan he misrepresented in the first place. He is singularly focused on what's best for Kevin Byrne not what's best for NW, its members, preferred members and employees. He has forced other senior management, officers and staff to compromise their integrity which has created significant previous senior management turnover as well as contributing to existing morale and communication problems. One of the major reasons for the delay in producing reliable financial reports is directly due to the actions of the CEO. He has misrepresented information internally as well as externally. He has made major decisions without including other key management someone else to blame. At a time when everyone in the company was struggling to keep the company together and find solutions, CEO Byrne went to Europe for 10 business days and just recently took off for another 6 business days. It was

CEO Byrne has stated the primary reason to wind the company down and eliminate the rest of the accounting staff ASAP is because of cost. Yet the New Jersey office is still operating with three full time people at a significant cost to NW. Obviously if the company is indeed winding down, the last people out the door should be the tax and accounting people. Coleman still believes there is an opportunity for NW to continue operations going in a different direction. It would certainly be in the best interest of everyone if NW could continue operations and earn its' way out of the current situation over time. NW has no chance to survive under its' current structure. CEO Byrne has clearly brought NW to its' knees and has benefited significantly in the process. He misappropriated funds on the Fountain Hills loan payoff which was a loan he misrepresented in the first place. He is singularly focused on what's best for Kevin Byrne not what's best for NW, its members, preferred members and employees. He has forced other senior management, officers and staff to compromise their integrity which has created significant previous senior management turnover as well as contributing to existing morale and communication problems. One of the major reasons for the delay in producing reliable financial reports is directly due to the actions of the CEO. He has misrepresented information internally as well as externally. He has made major decisions without including other key management personnel until after the fact. When challenged on issues he quickly finds someone else to blame. At a time when everyone in the company was struggling to keep the company together and find solutions, CEO Byrne went to Europe for 10 business days and just recently took off for another 6 business days. It was inexcusable for the CEO to desert the company during such a critical time especially considering the condition NW has been in for some time.

He is currently utilizing NW resources to form yet another company. It is time for Mr. Byrne to be removed and to be held accountable for his actions. It is also time for attorney Oldfield to remove himself as NW's attorney. He has major conflict since his law firm is a major tenant in the NW building owned by Byrne. He has also represented Byrne in several of his other dealings, including Fountain Hills. I wonder if Mr. Oldfield has any information on file regarding Fountain Hills since he was involved in discussions with Byrne relative to Bill Dodge's request for payment at closing of a disputed catch basin expense.

Ron – it is very apparent to me that the Byrne/Oldfield strategy is to get me to blow up and quit the company. This would certainly clear the way for them to accomplish everything they are attempting to do and place the blame on "the other" Managing member, yours truly.

12-08-00

Attorney conflict – Oldfield representing NW LLC and CEO Byrne personally. Byrne had Oldfield draw up a Resolution this past week apparently stating that NW members voted to liquidate the company at the last Member Meeting. Byrne had member Price sign the Resolution when he came by on another matter and I suspect member Reid also has signed the resolution.

This is highly unusual since Secretary Coleman usually records all member actions via the minutes and has the minutes reviewed and approved at the following member meeting. There was no reason for NW to engage Mr. Oldfield to draw up this specific resolution at this time. There certainly was no reason the Resolution had to be signed at this time, and there is a real question why Managing Member and Member Secretary Coleman wasn't even involved in the discussion of this action nor has he even received a copy of said resolution. In fact, Coleman does not believe a formal vote was taken at the meeting. The primary discussion point was the removal of members Mike and Tom Price from the board with the reasoning being that if NW is to continue operations and obtain additional credit lines, etc., it would be very difficult to do so with members

Mike and Tom Price still active on the board. This is what I believe was the main item of discussion by CEO Byrne at the last member meeting. The specific topic of liquidation was mentioned but detailed discussion was postponed until the next member meeting so that NW could prepare additional financial information for consideration of possible alternatives, including liquidation.

Based upon the discovery of additional information wherein CEO Byrne and at least one other existing NW LLC member (assumed to be Reid) plan to form a new company utilizing the resources and assets of NW to do so but excluding members Coleman, M Price and T Price. Something drastic need to be done as soon as possible. I believe CEO Byrne needs to be removed as CEO and Managing Member and attorney Oldfield removed as company counsel effective immediately in order for NW to complete an orderly liquidation or change directions and continue operations.

Coleman has discovered that CEO Byrne is indeed in the process of forming a new company and is utilizing NW resources to do so. It is suspected that attorney Oldfield and member Reid are also involved in this new company formation. Senior Vice President Marc Thomaes, currently employed at NW's New Jersey office, is also involved and is, in fact, the point person for establishing the new company.

Byrne and Oldfield are exerting abnormal pressure on Coleman relative to the wind down of NW LLC, insisting the wind down needs to be completed by December 31, 2000. Coleman and CFO Barka have established a projected time line to accomplish the majority of the accounting requirements to wind down the company. However, NW is very complicated from an accounting perspective since there are several companies involved.

“C”

Judge Katherine M. Stolz
Hearing Date: May 12, 2006
Hearing Time: 9:00 AM

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation; TIMOTHY JACOBSON, HILARY GRENVILLE, Plaintiffs, v. MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company, Defendants.	NO. 04-2-10247-8 **DECLARATION OF GARY GRENDAHL IN RESPONSE TO DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT**

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I, Gary Grendahl, hereby declare as follows:

1. I am a plaintiff herein, am competent to testify and make the following statements based upon my own personal knowledge and review of documents, including the declaration of Kevin Byrne submitted in support of his motion for summary judgment.

2. NW Commercial Loan Fund, LLC ("NWCLF") was formed in 1998. NW, LLC was the purported manager of NWCLF. The members of NW, LLC were Kevin Byrne, Bob Coleman, Mike Price, Tom Price and James Reid. It is my understanding that Kevin Byrne and Bob Coleman were the managers of NW, LLC and were the de facto managers of NWCLF.

3. The Operating Agreement for NWCLF describes the business of NWCLF generally as "to invest, reinvest and trade in promissory notes and other obligations secured by mortgages or deeds of trust or in real estate contracts or similar financial instruments (all such items hereafter referred to as 'Mortgages')." The Operating Agreement prohibits the Manager from acting in bad faith or contrary to the interests of the company. A true and correct copy of the Operating Agreement is attached hereto and incorporated by reference as EXHIBIT A.

4. Also executed was a Private Placement Offering Memorandum, which sets forth NWCLF's investment policy in more detail. A true and correct copy of the

Offering Memorandum is attached as EXHIBIT B. It states that the company "expects that at least 65% of [its] assets will be invested in commercial loans that are of A or B quality [and] may invest up to 35% of its assets in higher risk commercial loans, including 'hard money' loans." The Offering Memorandum further states that NWCLF "will not permit more than 15% of its long-term assets to be invested in any single Mortgage." The Offering Memorandum then lists general guidelines that the Manager "will follow . . . subject to waiver or exception only in a limited number of instances." Those general guidelines include diversification; primary investment in income-producing properties; primary investment in mortgages in first-lien position (provided that the Manager can invest in mortgages in a lower position if appropriate); and loan-to-value ratios generally of not more than 75% for "A" and "B" borrowers and 65% for "hard money" borrowers. In no event was the Manager to allow more than 10% of the company's assets to be invested in mortgages not conforming to the guidelines.

5. I have reviewed Kevin Byrne's declaration (dated 4/14/06) and have several very specific comments. I will address them in order:

Paragraph 10 - 11 Mr. Byrne contends that he and I had a meeting in February and a meeting in March of 2001. I don't specifically recall the date of the first 2001 meeting (or whether it was in February), but I do recall that

there was a meeting prior to a meeting in March 2001. Regardless, Mr. Byrne's characterization of these meetings is inaccurate.

At the first meeting, whether or not this was in February, I met with Bob Coleman and Byrne. I had some question about whether the financial problems with T&W Leasing (owned by Mike and Tom Price), was affecting NW, LLC or NWCLF. I was assured that it did not have any affect on either company. I was told that NW, LLC was doing well. I specifically asked whether the NWCLF loans were in first position, and was assured that they all were.

The meeting in March 2001. Mike Woodell attended this meeting with me. He asked a series of pointed questions to Byrne. Tom Oldfield was present and sat on my side of the table (across from Byrne). Oldfield did not say much. Woodell asked "how many loans are owned by NWCLF"? Byrne indicated he could not tell us as he did not know the precise number for certain. Byrne was also asked whether all the loans were in first position, he, again, assured us they were. He also indicate the loans were not in default. I was told that I had not received my requested disbursement because some loans would have had to have been sold at a loss to generate the payment, but was reassured that my investments were secure and payment would be forthcoming. I requested information about the specific loans, but, after

Byrne consulted with Oldfield, was told that this information could not be shared because of privacy concerns.

Second, Byrne never mentioned to me any problems with Bob Coleman or the fact that Coleman had even resigned from NW, LLC. Kevin Byrne's claim that he told me such things is a lie. Nor did he ever promise to "investigate" anything as it was my understanding, based upon his representations, that there was nothing to investigate. To the contrary, he repeatedly assured me that everything was fine and that I had nothing to worry about.

At this point, I viewed defendant Oldfield as the attorney for NWCLF, and Oldfield's presence helped to allay my concerns about the evasive responses I had received from Byrne in the preceding few months when I was inquiring about receiving a disbursement. I reasoned that if Oldfield was aware of what was going on (while looking out for the best interests of NWCLF and its members) and did not raise any concerns, then everything must be okay.

Had Oldfield disclosed the true situation to me at the time, as set forth in more detail below, I and the other investors would have had more time and more of an opportunity to address the problem and quite possibly have reduced our damages or been able to take other action to manage the

situation. The same is true if Oldfield had withdrawn, as I understand he was ethically obligated to do, from representing NWCLF at the time. This would have been a huge red flag for me and would have prompted an aggressive investigation. Oldfield's presence, and silence in the face of Byrne's lies, lulled me and other investors into a false sense of security.

Paragraph 12 Kevin Byrne claims that Rob Mitchell and I met with him in April 2001. I do not recall meeting with Kevin in April of 2001. I know that Rob Mitchell has located a day planner for 2001 that indicates that Rob met with Byrne on or about April 5th. I do not believe I was at this meeting. Regardless, Byrne claims that he provided a Balance Sheet (Exhibit 6 to his deposition) at this meeting which detailed all of the NWCLF loans, including the fact that all but one of the loans were in a project entitled Graham Square. I did not receive this Balance Sheet from Kevin Byrne, or anyone else for that matter, in April of 2001. Kevin Byrne's claim to the contrary is untrue. If I ever saw this Balance Sheet it would have been much later, either in the Fall of 2001 or even early 2002, after NWCLF had received the deeds in lieu of foreclosure for the shopping center and Will Stevens had had an opportunity to investigate the books and records of NWCLF. It certainly was not as early as April of 2001. Of that I am quite certain.

Paragraph 14 Byrne contends that Rob Mitchell and I were involved in discussions with Byrne as early as May 2001 about taking over management of NWCLF. This is flat out not true. Up to this point, I had heard nothing but reassurances from Kevin Byrne. We never discussed the concept of Rob Mitchell or I taking over NWCLF at this time. Several months later, in the Fall of 2001, after we had learned what had happened with our money, there were discussions about some member or members of NWCLF taking over the fund and there were some discussions about whether I would be interested in purchasing one of the parcels in the Graham Square project. However, these discussions occurred in October or November of 2001 – not May.

Paragraph 15 In this paragraph, Kevin Byrne claims that he met with Rob Mitchell, Will Stevens and myself some time prior to June of 2001. Byrne claims that we were given access to boxes of documents containing the loan files for the loans owned by NWCLF. This is not true. I was not given access to any loan files or provided any meaningful information about the loans owned by NWCLF. Rather, at the end of May 2001, I received a letter from Kevin Byrne advising me that NW, LLC was resigning as manager of the fund (for unexplained reasons) and that a new entity, Loan Holdings, LLC was taking over management of the fund. This new entity was to be owned by Byrne and James Reid, who were represented as being "committed to

seeing the investors through the liquidation of the Fund." I also received an unaudited financial statement dated May 31, 2001, which listed $4.8M in assets and $500K in debt owed by the fund (only later was I to learn that this $500K was a loan secured by Byrne and Reid to fund disbursements to investors). A true and correct copy of this "financial statement" is attached as EXHIBIT C. Also enclosed was a document entitled "NW Commercial Loan Fund Loans Outstanding". A true and correct copy of this document is attached as EXHIBIT D. This document identified loans by number and principal balance. It also identified the "collateral" for each loan. Notably only one of these loans was identified as being secured by a 2nd Deed of Trust, which was far from the truth. All of the loans turned out to be, as learned later, secured by junior deeds of trust. Kevin Byrne chose not to disclose this in May of 2001. Instead he kept trying to cover his tracks. Also received in May of 2001 was an expected loan payoff schedule, promising expected payoff of all of the loans by February of 2002. A true and correct copy of this document is attached as EXHIBIT E.

Byrne's claims that he told me in May of 2001 that the NWCLF loans were in second position, that some loans were delinquent, and that NW, LLC owned 50% of the Graham Square property is entirely false. I recall this conversation that I did eventually have with Kevin Byrne and it did not occur

in May or June of 2001. I remember this conversation quite clearly because it came as quite a shock to me and I was very angry. I realized I had been swindled and lied to. This didn't happen in May of 2001 - it happened in August of 2001 -- August 9, 2001 to be exact. That date is burned into my memory. I distinctly remember thinking about Byrne, "you son of a b*tch, you stole our money."

Paragraph 16 Kevin Byrne claims he provided me, Rob Mitchell and Gary Grendahl with "loan memos" in June of 2001 detailing the status of the loans owned by NWCLF. No such thing ever occurred. Until they were produced in this litigation, I had never seen these self-serving "loan memos" that Byrne apparently concocted. I certainly never received them in June of 2001. Nor did I receive site plans, floor plans, rent rolls, copies of the assignments of the deeds of trust or any of the other documents Byrne claims he provided to me in June of 2001.

In June of 2001, I was still receiving placating promises from Kevin Byrne and James Reid. In particular, I received a letter from Loan Holdings, LLC, signed by Kevin Byrne and James Reid some time in June of 2001, along with a partial disbursement from NWCLF. Attached hereto and incorporated as EXHIBIT F is a true and correct copy of the form of the letter that I received from Loan Holdings, LLC some time in June 2001. I do not recall if this is the

precise letter that I received (I understand this particular copy was discovered in documents only recently produced by Byrne), however, it is consistent with the letter that I received in this time frame and accurately reflects my recollection of the letter that I received. Based on this letter I believed that my investments were still safe and that I would be paid in full.

Paragraph 20 On or about July 9, 2001, Mike Woodell, an attorney who his a long-time friend of mine, wrote a letter Loan Holdings, LLC identifying some areas of concern.

In July of 2001, I did not know that essentially all of NWCLF's assets (investor money) had been put into a shopping center (Graham Square). I did not know that this shopping center was owned by several LLCs that were 50% owned by the members of NW, LLC (Byrne, Coleman, Price, Price and Reid). I did not know that the loans were all in second (or worse) position and in default. I did not know that many of the loans in first position were in default or would soon be in default. I did not know that the loans owned by the fund could not be sold in an amount sufficient to repay my investment. Of note, Woodell's letter does not include reference to Graham Square. Nor does it make reference to the fact that the notes were all in second position. The reason these facts are not mentioned, is because we did not know them at this time. In summary, I did not know if I had, in fact, suffered any damages

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at this point. I was still under the impression, based on Byrne's reassurances, that the fund would be able to liquidate its loans and pay off the investors (limited members).

Mr. Woodell's letter is consistent with my understanding at the time: we did not really know what was going on and did not have any information about the quality of the loans owned by the fund. Previous efforts to seek information about the loans owned by the fund had been rebuffed by both Kevin Byrne and attorney Tom Oldfield. That is why Mr. Woodell's letter stated:

> We are so concerned that we do not have all the pertinent facts, we must demand that our accountant, William R. Stevens, be given immediate access to NW Commercial Loan Fund records to audit the status of the loan portfolios and bank accounts.

Mr. Byrne claims that I had all this information by this time (he claims that I was allowed to review "boxes" of loan documents relating to the underlying loans in June of 2001). If I already had all this information in June 2001, why would my attorney be asking for this same information in July of 2001?

Paragraph 21 Shortly after July 16, 2001, I received a letter from Kevin Byrne. A true and correct copy of this letter is attached as EXHIBIT G. Of note, this letter indicated that "[w]e are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately

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65% of the amount of the last check mailed to you." My understanding at that time was that our investments were still secure and that I could expect full repayment. I did not receive any schedule of loans with this letter. It certainly was not disclosed to me that all of my money had been invested in junior deeds of trust (in default) in a shopping center that was 50% owned by Byrne, Reid, Price, Price and Coleman. This was all part of Kevin Byrne's efforts to placate investor concerns. He continued to provide assurances that the investors would be able to get their money back - as evidenced by this promise of another disbursement.

Paragraph 23 I met with Kevin on or about July 18, 2001. Kevin, once again, reassured me that the NWCLF was doing okay and that I should expect to get repaid in full as its assets were liquidated over time. His claim that I was provided access to documents regarding Bob Coleman's role in this matter at this meeting is false. Kevin wrote me a letter dated July 19, 2001, where he reassured me that: "Price et al claims that the fund is in trouble is in reality overstated and/or Price et al not making capital calls as agreed when the investment was transferred to them. They are standing in the way of completing the project and/or refinancing." A true and correct copy of this letter is attached as EXHIBIT H. Thus, as of July 19, 2001 I had again received assurances and promises from Byrne that my investments were safe.

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6. As set forth above, I did not discover what defendants had done with the funds invested in NWCLF until August of 2001. This was at a meeting in NW, LLC's offices, located in the basement of a building owned by Byrne and shared with his attorney, Oldfield. Prior to this meeting, I had received repeated assurances from Kevin Byrne (and Reid in the June 2001 letter) that my investments were secure and that I should expect full repayment. Requests for documentation regarding the loan portfolio had been rebuffed and I was told they could not be provided due to privacy concerns. As I had also received a couple of disbursements (in or about May and June), I had continued to be fooled into believing that the loan portfolio owned by NWCLF was sufficient to pay off the investors and that my wife and I would get our life savings back. It was not until the meeting in August of 2001, that I first realized that I might not recoup my investment and that it might not be secure.

7. In November of 2001, Will Stevens took over as the manager of NWCLF. On this same day, the fund accepted deeds in lieu of foreclosure from the Graham Square LLCs - acquiring title to the partially developed commercial property - and all the headaches and problems that came along with it. It really wasn't until the Fall or Winter of 2001, that the true calamity caused by defendants had become apparent. We continued to hope that by leasing out the shopping center it might be possible to recoup at least part of our investments. To suggest that I, or any other investor, understood that we had been swindled by defendants

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in July of 2001 and that we might not recover our full investments is preposterous. This is yet another effort by defendants to seek to escape liability for their wrongful acts on some sort of technicality that Kevin Byrne has manufactured. That cannot be justice.

8. Mr. Stevens undertook an investigation of the status of this project. I believe that this took him several months. While this investigation was ongoing, it was still my hope and belief that I would be able to recover my investments in the fund out of an eventual sale of the properties. Until it could be determined the actual status of these properties and this project, it was not apparent to me whether I was going to be able to recover any of my investments. In other words, I did not know whether I had suffered any damages as a result of the wrongful conduct of the defendants (which was gradually being discovered by the investigation of Mr. Stevens and others in late 2001).

9. Some time after January 11, 2002, I received a letter from Will Stevens, acting as the manager of NWCLF. A true and correct copy of this document is attached as EXHIBIT I. Mr. Stevens detailed the results of his investigation and the possible plans of action. He noted that he had discovered that the loans on the property were in default and that he was working with the lenders to seek concessions in an attempt to keep the project viable and afloat. The concluding paragraph in Mr. Stevens' letter stated "We have no opinion of the value of the

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collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover." It was not until I received a copy of this letter (some time in January 2002), that I first had any inkling that my wife and I might not recover our full investment. Prior to this time, even after the discovery of some of the facts in August of 2001, I was under the belief that the limited members were expected to recover their investments based on a liquidation of the assets held by the fund.

10. Even after receipt of Mr. Stevens' letter, I know that I and other investors continued to hold out hope that we could recover some or all of our investments. Will Stevens, Gary Grendahl, Rob Mitchell, Tim Jacobson and others worked hard for several years in trying to get the Graham project on track and get it into a situation where it could be profitable or sold for enough money to make at least partial payments to the various investors. For a variety of reasons, including the significant debt service that the fund inherited with this project, leasing out the Graham project was difficult.

11. Regarding the actions (or inactions of attorney Tom Oldfield), it is my opinion that, had he either disclosed the problems with NWCLF early on (March of 2001 or earlier) or withdrawn due to his conflict of interest between NW, LLC, NWCLF and Kevin Byrne, I and the other investors could likely well have avoided and/or minimized some of our losses and damages. An extra 5-6 months in this

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matter would have been very significant. When the fund inherited the Graham project in November 2001, it was in pure crisis mode. On the day of the receipt of the deeds in lieu of foreclosure, NWCLF lost one of the significant parcels to a foreclosure. This parcel was the fully developed and I believe fully leased out portion of the center, which would have generated income and would have been the easiest to sell. There was also soon a pending foreclosure by another bank and notices of default were flooding in. Pacifica Bank (who loaned the fund money based upon the personal guarantees of Byrne and Reid), was demanding payment and filed a lawsuit seeking to garnish the rental income. From the date NWCLF acquired the Graham property it was attempting to respond to one emergency after another. Rob Mitchell, Tim Jacobson and I loaned money to the project to try to keep it afloat and to give it working capital. It took months for Will Stevens and others to sort out the status of various leases and other problems with the property. An additional 5-6 months would have given NWCLF and its investors (including me) more time to investigate and to seek out possible refinancing. We would not have been in a reactive crisis mode. There would have been more time to attempt to work out compromises with lenders and to try to sell the property. As it was, when the fund acquired the property there was only time to react to the problems and demands for payment which were coming in fast and furious. I cannot say that I would have recovered all of my investment had Oldfield disclosed his conflict (or

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the situation that he had learned from Byrne - his landlord), but I can say with reasonable confidence that it is quite likely (more probable than not) that I and other investors could have limited our damages and most likely have been able to avoid putting the fund into bankruptcy, which resulted in additional costs and added a layer of difficulty to the entire mess that we inherited from defendants.

I hereby declare under penalty of perjury in the State of Washington that the foregoing statements are true and correct to the best of my knowledge and belief.

Dated this 4 day of May, 2006 at Seattle, Washington.

Gary Grendahl

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OPERATING AGREEMENT
OF
NW COMMERCIAL LOAN FUND, LLC

THIS OPERATING AGREEMENT OF NW COMMERCIAL LOAN FUND, LLC (hereafter "Agreement") is entered into and made effective this ____ day of April, 1998, executed by the Member whose signature appears on the signature page hereof.

ARTICLE 1 – DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 "Act" means the Washington Limited Liability Company Act (RCW Ch. 25.15).

1.2 "Affiliate" means, with respect to any Person, (i) any other Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling fifty-one percent (51%) or more of the outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of fifty-one percent (51%) or more of the voting interests of any Person described in clauses (i) through (iii). For purposes of this definition, the term "controls," "is controlled by," or "is under common control with": shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.3 "Capital Account" means the capital account determined and maintained for each Unit Holder and Limited Member pursuant to Section 9.3.

1.4 "Capital Contribution" means any contribution to the capital of the Company in cash or property by a Member whenever made.

1.5 "Cash Available for Distribution" means all cash funds derived from operations of the Company (including interest received on reserves and other miscellaneous sources), without deduction for any noncash charges, but less cash funds used to pay current operating expenses and to pay or establish reasonable reserves for contingencies, future expenses, debt payments, and other obligations as determined by a General Manager. Cash Flow shall not include Capital Proceeds but shall be increased by the reduction of any reserve previously established.

1.6 "Certificate of Formation" means the certificate of formation pursuant to which the Company was formed, as originally filed with the office of the Secretary of State on May 11, 1998, and as amended from time to time.

1.7 "Code" means the Internal Revenue Service Code of 1986, as amended or corresponding provisions of subsequent superseding federal revenue laws.

1.8 "Company" means "NW Commercial Loan Fund, LLC."

1.9 "Company Minimum Gain" has the same meaning as the term "partnership minimum gain" in Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

1.10 "Deficit Capital Account" means with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the taxable year, after giving effect to the following adjustments:

(i) credit to such Capital Account any amount that such Member is obligated to restore to the Company under Regulation Section 1.704-1(b)(2)(ii)(c), as well as any additions thereto pursuant to the next to last sentences of Regulation Sections 1.704-2(g)(1) and (i)(5); and

(ii) debit to such Capital Account the items described in Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

This definition of is intended to comply with the provisions of Regulation Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

1.11 "Economic Interest" means a Member's share of Net Profits, Net Losses, and other tax items of the Company and distributions of the Company's assets pursuant to this Agreement and the Act, but shall not include any right to participate in the management of affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members.

1.12 "Economic Interest Owner" means the owner of an Economic Interest who is not a Member.

1.13 "Entity" means any general partnership, limited partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any other organization that is not a natural person.

1.14 "Limited Economic Interest" means the interest conferred upon a holder of a Limited Membership Unit(s) in the distributions and other economic interests in the Company but shall not include the right to vote on or consent to certain acts of the Company as conferred upon Limited Members in this Agreement.

1.15 "Limited Member" means each Person who is the holder of a Limited Membership Unit.

1.16 "Limited Membership Unit" means the Units held by a Limited Member in accordance with Article 7.

1.17 "Limited Membership Interest" means all of a Limited Member's share of the distributions of the Company's assets a Limited Member may be entitled to under Article 7 in accordance with his or her Limited Membership Unit(s) and the right to vote on certain events as specifically set forth in this Agreement.

1.18 "Majority Interest" means, at any time, more than fifty percent (50%) of the then outstanding Units held by Members.

1.19 "Manager" means N W L.L.C. and/or any other Person who may become a substitute or additional Manager as provided in Article 5.

1.20 "Member" means each Person who executes a counterpart of this Agreement as a Member and each Person who may hereafter become a Member. To the extent a Manager has purchased a Membership Interest in the Company, it will have all the rights of a Member with respect to such Membership Interest, and the term "Member" as used herein shall include a Manager to the extent it has purchased a Membership Interest in the Company. If a Person is a Member immediately prior to the acquisition by such a Person of an Economic Interest, such Person shall have all the rights of a Member with respect to such Economic Interest.

1.21 "Membership Interest" means all of a Member's share in the Net Profits, Net Losses, and other tax items of the Company and distributions of the Company's assets pursuant to this Agreement and the Act and all of a Member's rights to participate in the management or affairs of the Company, including the right to vote on, consent to or otherwise participate in any decision of the Members.

1.22 "Member Minimum Gain" has the same meaning as the term "partner nonrecourse debt minimum gain" in Regulation Section 1.704-2(i).

1.23 "Member Nonrecourse Deductions" has the same meaning as the term "partner nonrecourse deductions" in Regulation Sections 1.704-2(i)(1) and (2). The amount of Member Nonrecourse Deductions for a Company fiscal year shall be determined in accordance with Regulation Section 1.704-2(i)(2).

1.24 "Minimum Portfolio Capitalization" shall mean the minimum capitalization required to be held by the Company as cash and Mortgages as a condition precedent to the payment of the Member's residual participation pursuant to paragraph 11.1. The Minimum Portfolio Capitalization shall be calculated as 1.15 multiplied by the sum of all Members' Adjusted Capital Contributions to the Company and all accrued but unpaid Yield.

1.25 "Net Profits" and "Net Losses" shall have the meaning ascribed to those terms in Section 10.5.

1.26 "Nonrecourse Deductions" has the meaning set forth in Regulation Section 1.704-2(b)(1). The amount of Nonrecourse Deductions for a Company fiscal year shall be determined pursuant to Regulation Section 1.704-2(c).

1.27 "Nonrecourse Liability" has the meaning set forth in Regulation Section 1.704-2(b)(3).

1.28 "Percentage Interest" means with respect to any Unit Holder the percentage determined based upon the ratio that the number of Units held by such Unit Holder bears to the total number of outstanding Units.

1.29 "Person" means any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.30 "Regulations" includes proposed, temporary and final Treasury regulations promulgated under the Code and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.31 "Reserves" means, with respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts deemed sufficient by the Manager for working capital and to pay taxes, insurance, debt service or other costs or expenses incident to the ownership or operation of the Company's business.

1.32 "Unit Holder" means a Person who is a Member or who holds an Economic Interest but is not a Member.

1.33 "Units" means the Units issued to any Member under this Agreement as reflected in attached Section 1, as amended from time to time, and the units of Limited Membership issued to any Limited Member as reflected in the records of the Company from time to time, stated at a value of one unit per $1.00 of Adjusted Capital Contributions.

1.34 "Yield" means the adjustable preferred cumulative rate of return to which the Limited Members shall be entitled, calculated as a percentage of each Limited Member's Adjusted Capital Contribution (as defined herein), and defined initially as 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15 year GNMA securities "the GNMA Rate" as published from time to time in the Wall Street Journal. The yield shall be subject to quarterly adjustment and amendment in the discretion of the General Managers, without the necessity of amending this agreement, upon 90 days advance written notice by the company to the Limited Members.

ARTICLE 2 -- FORMATION OF COMPANY

2.1 Formation. The Company was formed on the 11th day of May, 1998, when the Certificate of Formation was executed and filed with the office of the Secretary of State in accordance with and pursuant to the Act.

2.2 **Principal Place of Business.** The principal place of business of the Company shall be 7610-40th Street West, PO Box 64176, University Place, Washington 98466-0176. The Company may locate its places of business at any other place or places as the Manager may from time to time deem advisable.

2.3 **Registered Office and Registered Agent.** The Company's initial registered agent and the address of its initial registered office in the state of Washington are as follows:

Name	Address
Robert J. Coleman	7610 40th Street West Post Office Box 64176 University Place, WA 98466-0176

The registered office and registered agent may be changed by an authorized person from time to time by filing an amendment to the Certificate of Formation in accordance with the Act.

2.4 **Term.** The term of the Company shall be for a period of 30 years, unless the Company is earlier dissolved in accordance with either Article 14 or the Act.

ARTICLE 3 – BUSINESS OF COMPANY

The business of the Company shall be to invest, reinvest and trade in promissory notes and other obligations secured by mortgages or deeds of trust or in real estate contracts or similar financial instruments (all such items hereafter referred to as "Mortgages"), and to exercise all powers necessary or advisable thereto which may be conducted by a limited liability company organized under the Act.

ARTICLE 4 – NAMES AND ADDRESSES OF MEMBERS

The names and addresses of the Members are set forth on attached Schedule 1, as amended or restated from time to time.

ARTICLE 5 – MANAGERS; RIGHTS AND DUTIES

5.1 **Management.** The business and affairs of the Company shall be managed by a Manager, or Managers if two or more Managers are elected by the Members. The Members may name one Manager the Chief Executive Officer. The Manager(s) may designate other positions and titles for officers and employees, whether or not they are a Member, as the Manager(s) may from time to time deem appropriate. Except as otherwise expressly provided in this Agreement, the Manager shall have full and complete authority, power and discretion to manage and control the business, affairs and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of the Company's business. At any time when there is more than one Manager, any one Mana

take any action permitted to be taken by the Managers, unless the approval of more than one of the Managers is expressly required by this Agreement or the Act. Without limiting the generality of the foregoing, the Manager shall have power and authority, on behalf of the Company:

5.1.1 to solicit and evaluate Mortgages for investments;

5.1.2 to acquire Mortgages from any Person or Entity as the Manager may determine; and the fact that the Manager or a Member is an Affiliate of such Person or Entity shall not prohibit the Manager from dealing with that Person or Entity;

5.1.3 to manage all day-to-day business with Limited Members and/or holders of Limited Economic Interests including the payment of the Yield and redemption of any Limited Membership Interest.

5.1.4 to invest Company funds in time deposits, short-term governmental obligations, commercial paper or other short-term investments;

5.1.5 to employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

5.1.6 to enter into any and all other agreements with any other Person for any purpose, in such form as the Manager may deem necessary or advisable to carry out the business of the Company.

5.1.7 from time to time open bank accounts in the name of the Company; and

5.1.8 to do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business.

Unless authorized to do so by this Agreement or by the Manager, no Member, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable for any purpose.

5.2 Compensation. The Manager shall receive no compensation for its services rendered hereunder unless agreed to in writing signed by all Members. The Manager shall, however, be reimbursed by the Company for reasonable out-of-pocket expenses incurred by the Manager in connection with the Company's business, including without limitation expenses incurred in the organization of the Company.

5.3 Limitation on Liability; Indemnification. The Manager nor any Affiliate of the Manager shall not be liable, responsible or accountable in damages or otherwise to the Company or the Members for any act or omission by any such Person performed in good faith pursuant to the authority granted to such Person by this Agreement or in accordance with its provisions, and in a manner reasonably believed by the Manager to be within the scope of the authority

Manager and in the best interest of the Company; provided that such act or omission did not constitute fraud, misconduct, bad faith or gross negligence. The Company shall indemnify and hold harmless the Manager, and each director, officer, partner, employee or agent thereof, against any liability, loss, damage, cost or expense incurred by them on behalf of the Company or in furtherance of the Company's interest without relieving any such Person of liability for fraud, misconduct, bad faith or gross negligence. No Member shall have any Personal liability with respect to the satisfaction of any required indemnification of the above-mentioned Persons.

Any indemnification required to be made by the Company shall be made promptly following the fixing of the liability, loss, damage, cost or expense incurred or suffered by a final judgment of any court, settlement, contract or otherwise. In addition, the Company may advance funds to any Person claiming indemnification under this Section 5.3 for legal expenses and other costs incurred as a result of a legal action brought against such Person only if (i) the legal action relates to the performance of duties or services by the Person on behalf of the Company, (ii) the legal action is initiated by a party other than a Member, and (iii) such Person undertakes to repay the advanced funds to the Company if it is determined that such Person is not entitled to indemnification pursuant to the terms of this Agreement.

5.4 Removal. At a meeting called expressly for that purpose, the Manager may be removed at any time, with or without cause, by the affirmative vote of the holders of a Majority Interest. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member.

5.5 Vacancies. Any vacancy occurring for any reason in the number of Managers may be filled by the affirmative vote of two-thirds of the Members.

5.6 Right to Rely on the Manager. Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager as to the identity and authority of any representative or other Person to act on behalf of the Company or any Member.

ARTICLE 6 – RIGHTS AND OBLIGATIONS OF MEMBERS

6.1 Limitation of Liability. Each Member's liability shall be limited as set forth in this Agreement and the Act.

6.2 Liability for Company Obligations. Members shall not be personally liable for any debts, obligations or liabilities of the Company beyond their respective Capital Contributions, defined below, and any obligation of the Members under Section 9.1 or 9.2 to make Capital Contributions, except as otherwise provided by law.

6.3 Approval of Sale of All Assets. The Company shall not sell, exchange or otherwise dispose of all, or substantially all, of its assets without the affirmative vote of the holders of two-thirds of the Units held by Members.

6.4 **Inspection of Records.** Upon reasonable request, each Member shall have the right to inspect and copy at such Member's expense, during ordinary business hours the records required to be maintained by the Company pursuant to Section 12.5.

6.5 **No Priority and Return of Capital.** Except as expressly provided in Articles 7, 10 or 11, no Unit Holder shall have priority over any other Unit Holder, either as to the return of Capital Contributions or as to Net Profits, Net Losses or distributions; provided, that this Section 6.5 shall not apply to loans made by a Member to the Company.

6.6 **Withdrawal of Member.** Except as expressly permitted in this Agreement, no Member shall voluntarily resign or otherwise withdraw as a Member. Unless otherwise approved by Members holding a Majority Interest, a Member who resigns or withdraws shall be entitled to receive only those distributions to which such Person would have been entitled had such Person remained a Member (and only at such times as such distribution would have been made had such Person remained a Member). The remedy for breach of this Section 6.6 shall be monetary damages (and not specific performance), which may be offset against distributions by the Company to which such Person would otherwise be entitled.

ARTICLE 7 -- LIMITED MEMBERSHIPS

7.1 **Limited Members.** There shall be a class of members created by way of this Article 7 known as Limited Members. The minimum initial contributions for a Limited Member is $25,000. A Limited Member shall be entitled to only those rights specifically set forth in this Article 7. Except as set forth in this Article 7, a Limited Member shall not be entitled to any right given to Members elsewhere in this Agreement.

7.2 **Limited Membership Unit(s).** A Limited Membership Unit is the interest owned by a Limited Member as set forth in this Agreement. There are hereby created 20,000,000 Limited Membership Units. Each Limited Membership Unit shall be available for sale by the Company only in compliance with State and Federal securities laws. Each Limited Member and each of his or her Limited Membership Units shall be restricted in such a manner to comply with resale and transfer restrictions placed on like securities by applicable State and Federal law.

7.2.1 **Fractional Limited Membership Units.** Notwithstanding the foregoing, the Company may not sell fractions of a Limited Membership Unit.

7.2.2 **Consideration.** Each Limited Membership Unit shall be sold for an amount no more or less than One Dollar ($1.00) payable in US currency or like consideration acceptable to the Company.

7.3 **Limitation of Liability.** Each Limited Member's liability shall be limited in the same manner as a Member's liability elsewhere in this Agreement and in the Act.

7.4 **Liability for Company's Obligations.** Limited Members and the holders of a Limited Economic Interest shall not be personally liable for any debts, obligations or liabilities of the Company beyond their respective Limited Membership Units. Limited Members shall not be liable as a Member for Capital Contributions.

7.5 **Approval of Sale of All Assets.** The Company shall not sell, exchange or otherwise dispose of all, or substantially all, of its assets without the affirmative vote of Limited Members holding a majority of the Limited Membership Units.

7.6 Priority and Return of Capital.

7.6.1 Priority. In the event of any liquidation, dissolution or winding up of this Company, whether voluntary or involuntary, Limited Members and the holders of a Limited Economic Interest shall be entitled to be paid before any sums shall be paid or any assets distributed to or among the Members or Economic Interest Owners out of the assets of this Company available for distribution to Members or Economic Interest Owners of this Company, whether such assets are capital or earnings, the sum of $1.00 for each Limited Membership Unit, plus any unpaid Yield related to such Limited Membership Unit. If the assets of this Company are insufficient to permit payment in full to the Limited Members or the holders of Limited Economic Interests as provided in this Section 7.7.1, then the entire assets of this Company available for distribution shall be distributed ratably among the holders of Limited Membership Units and the holders of Limited Economic Interests.

7.6.2 Equal Priority. Except as expressly provided in this Article 7, no Limited Member or holder of a Limited Economic Interest shall have priority over any other Limited Member or holder of a Limited Economic Interest as to any distribution by the Company. This Section 7.7.2 does not apply, however, to loans made by a Limited Member or holder of a Limited Economic Interest to the Company.

7.7 Distributions.

7.7.1 Yield. The Company shall pay quarterly out of funds or assets of this Company legally available therefore, with respect to Limited Membership Units or Fractional Limited Membership Units in an amount, in the aggregate for all Limited Member Units, equal to the lesser of (1) 99% of the Company's cash available for distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield") compounded and payable quarterly, calculated as a percentage of each Limited Member's Adjusted Capital Contribution as defined in this Operating Agreement. In the event that the amount paid is less than the Yield, the unpaid amount of the Yield shall be cumulative and shall be paid from Cash Available for Distribution to the extent available in the following quarter or quarters or provided hereafter.

7.7.2 Reinvestment of Yield. If the Company and Limited Member or holder of a Limited Economic Interest each agree, the Company may issue additional Limited Membership

Unit(s) equal in value to the Yield otherwise payable in lieu of paying the Yield in cash pursuant to Subsection 7.8.1.

7.8 **Redemption.** The Company may, at any time upon 30 days notice to the holder of the Limited Membership Unit, redeem all or a portion of the Limited Membership Unit by paying to the holder of the Unit a sum equal to $1.00 for each Limited Membership Unit.

7.9 **Priority - Limitations on Distributions.** The Company's obligation to make distributions in accordance with this Section 7 is subject to R.C.W. 25.15.235, which prohibits the Company from making a distribution to a member to the extent that at the time of the distribution, after giving affect to the distribution (a) the Company would not be able to pay its debts as they become due in the usual course of business, or (b) all liabilities of the Company, other than liabilities to Members on account of their limited liability company interests and liabilities for which the recourse of creditors is limited to specified property of the Company, exceed the fair value of the assets of the Company, except that the fair value of property that are subject to a liability for which the recourse of creditors is limited shall be included in the assets of the limited liability Company only to the extent that the fair value of that property exceeds that liability.

7.10 **Distributions Cumulative.** Notwithstanding any provision in this Article 7 or elsewhere in this Agreement, any Yield which becomes due to a Limited Member and is not paid when due shall accumulate and shall be payable, as to each quarter installment not paid, at the end of the first quarter when the Company could, as of such quarter-end, pay such unpaid accumulated Yield without violating Section 7.10 above or R.C.W. 25.15.235. The Company shall not make a distribution to the Members until such time as all Yield, including any accumulated Yield, shall have been made to the Limited Members or holders of a Limited Economic Interests in respect of their Limited Membership Unit(s).

7.11 **Transferability.**

7.11.1. **General.** A Limited Member is subject to the same restriction on transference of his or her Limited Membership Interest as a Member or Economic Interest Owner under Article 13 of this Agreement and as provided under applicable State and Federal securities law, including a right of first refusal in favor of the Members of the Company.

7.11.2 **Transferee.** A transferee of a Limited Membership Unit(s) who complies with the restrictions on transfer set forth in Article 13 and elsewhere in this Agreement and obtains the written consent of the Members of the Company is entitled to all the rights of his or her Limited Membership Unit(s) as a Limited Member as conferred in this Article 7 and elsewhere in this Agreement.

7.11.3 **Limited Economic Interest.** A Person who receives a Limited Membership Unit or Fractional Limited Membership Unit without compliance with Article 13, whether by voluntary transference or gift or by involuntary means, shall only possess a Limited Economic

Interest until such time as such Person fully complies with Article 13 and receives the consent of the Members of the Company.

7.12 Voting. Except as expressly provided elsewhere in this Agreement or by law, a Limited Member shall have no right to participate in the management of the Company or to vote on any matter subject to vote of the Members or Unit Holders of the Company.

7.13 Dissolution. Limited Members shall be subject to certain events of dissolution as provided in Article 14 of this Agreement. In the event of dissolution of the Company, and the business of the Company is not continued as provided in Article 14, the Limited Members and the holders of Limited Economic Interests shall be entitled to a distribution of the assets of the Company prior to any distribution to any Member.

7.14 Inspection of Records. A Limited Member shall be entitled to inspect and copy the books and records of the Company as provided to Members under Section 6.4 of this Agreement.

ARTICLE 8 -- MEETINGS OF MEMBERS

8.1 Annual Meeting. The annual meeting of the Members shall be held on the second Tuesday of July of each and every year, or at such other time as shall be determined by the Members, for the purpose of the transaction of such business as may come before the meeting.

8.2 Special Meetings. Special meetings of the Members, for any purpose or purposes, may be called by the Manager or by Members holding at least ten percent (10%) interest in the Company.

8.3 Chairman of the Members. The Members may elect one of the Members Chairman of the Members and a second Member to be Vice Chairman of the Members. The Chairman of the Members shall advise and consult with the Members and the Manager of the Company as to the determination of the policies of the Company, shall preside at all meetings of the Members, and shall perform such other functions and responsibilities as the Members shall designate from time to time. If the Chairman of the Members is unable or refuses to act as Chairman of the Members, the Vice Chairman of the Members shall act in his or her place. The Chairman and Vice Chairman of the Members shall serve for two years and until their successors are elected and assume their duties as chairman.

8.4 Place of Meetings. The Manager or the Member(s) may designate any place, either within or outside the State of Washington, as the place of meeting for any meeting of the Members. If no designation is made, or if a special meeting is called, the place of meeting shall be the principal office of the Company specified in Section 2.2.

8.5 Notice of Meeting. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than ten (10) nor more than fifty (50) days before the date of it

either Personally or by mail, by or at the direction of the Manager or the Members calling the meeting, to each Member entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered two calendar days after being deposited in the United States Mail, addressed to the Member as specified in Article 2, with postage thereon prepaid.

8.6 Record Date. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any distribution, the date on which notice of the meeting is mailed or the date on which the resolution declaring such distribution is adopted as the case may be shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

8.7 Quorum. A Majority Interest represented in person or by proxy shall constitute a quorum at any meeting of Members. In the absence of a quorum at any such meeting, a majority of the Units held by Members so represented may adjourn the meeting from time to time for a period not to exceed sixty (60) days without further notice. However, if the adjournment is for more than sixty (60) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notice. The Members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal during such meeting of a Member whose absence would cause less than a quorum.

8.8 Manner of Acting. If a quorum is present, the affirmative vote of Members holding more than a fifty percent (50%) of the Units represented at the meeting in Person or by proxy shall be the act of the Members, unless the vote of a greater or lesser percentage is required by this Agreement or the Act.

8.9 Proxies. At all meetings of Members a Member may vote in Person or by proxy executed in writing by the Member. Such proxy shall be filed with the Manager before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

8.10 Action by Members Without a Meeting. Action required or permitted to be taken at a meeting of Members may be taken without a meeting if the action is evidenced by one or more written consents describing the action taken, executed by Members entitled to vote thereon and delivered to the Manager for inclusion in the Company's minutes. Action taken under this Section 8.10 is effective when all Members entitled to vote thereon have signed such consents, unless such consents specify a different effective date. The record date for determining Members entitled to take action without a meeting shall be the date the first Member signs a consent.

8.11 Waiver of Notice. When any notice is required to be given to a Member, a waiver thereof in writing signed by the Member entitled to such notice, whether before, at, or after the time stated therein, shall be equivalent to the giving of such notice.

ARTICLE 9 -- CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS

9.1 Members' Capital Contributions. Each Member shall contribute such amount as is set forth in attached Schedule 1 as such Member's share of the Members' initial Capital Contribution.

9.2 Additional Contributions. Each Member shall be required to make such additional Capital Contributions as shall be determined by the Manager from time to time to be reasonably necessary to meet the expenses of the Company.

The Manager shall give written notice to each Member of the amount of any required additional Capital Contribution, and each Member shall pay to the Company such additional Capital Contribution no later than thirty (30) days following the date such notice is given. Nothing contained in this Section 9.2 is or shall be deemed to be for the benefit of any Person other than the Members and the Company, and no such Person shall under any circumstances have any right to compel any actions or payments by the Members.

9.3 Capital Accounts.

9.3.1 Establishment and Maintenance. A separate Capital Account will be maintained for each Unit Holder throughout the term of the Company in accordance with the rules of Regulation Section 1.704-1(b)(2)(iv) of the Treasury Regulations promulgated under the Internal Revenue Code of 1986, as amended. Each Unit Holder's Capital Account will be increased by (1) the amount of money contributed by such Unit Holder to the Company; (2) the fair market value of property contributed by such member to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take the property subject to under Code Section 752); (3) allocations to such Unit Holder of Net Profits; (4) any items in the nature of income and gain that are specially allocated to the Unit Holder pursuant to Sections 11.2 and 11.3; and (5) allocations to such Unit Holder of income and gain exempt from federal income tax. Each Unit Holder Capital Account will be decreased by (1) the amount of money distributed to such Unit Holder by the Company; (2) the fair market value of property distributed to such Unit Holder by the Company (net of liabilities secured by such distributed property that such member is considered to assume or take the property subject to Code Section 752); (3) allocations to such Unit Holder of expenditures described in Code Section 705(a)(2)(B); (4) any items in the nature of deduction and loss that are specially allocated to the Unit Holder pursuant to Sections 11.2 and 11.3; and (5) allocations to such Unit Holder of Net Losses. In the event of a permitted sale or exchange of a Unit Holder's interest in the Company, the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Membership Interest or Economic Interest.

9.4 Withdrawal or Reduction of Members' Contributions to Capital. A Member shall not receive out of the Company's property any part of its Capital Contribution until all liabilities of the Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains property of the Company sufficient to pay them. A Member, irrespective of the nature of its Capital Contribution, has only the right to demand and receive cash in return for its Capital Contribution.

ARTICLE 10 - ALLOCATIONS OF NET PROFITS AND LOSSES

10.1 Allocation of Profits and Loss and Distribution of Cash Flow.

10.1.1 Net Losses shall be allocated one percent to the Members to be allocated in accordance with Paragraph 4.5.1, and 99 percent to the Limited Members, collectively, to be allocated among them in accordance with paragraph 4.5.2.

10.1.2 Net Profits shall be allocated one percent to the Members, to be allocated in accordance with Paragraph 4.5.1; and, to the Limited Members, the lesser of (1) 99 percent or (2) the Limited Members share of any Cash Available for Distribution to be allocated in accordance with Paragraph 4.5.2. Any remaining Net Profits shall be allocated to the Members, to be allocated in accordance with Paragraph 4.5.1.

10.2 Distribution of Cash Available for Distribution.

10.2.1 Cash Available for Distribution shall be allocated and distributed quarterly ~~one percent to Members to be allocated in accordance with Paragraph 4.5.1, and the lesser of (1)~~ 99 percent, or (2) the amount of any Yield currently payable or accrued and unpaid to the Limited Members collectively, to be allocated among them in accordance with Paragraph 4.5.2. Thereafter, any remaining Cash Available for Distribution shall be allocated and distributed, after redemption of all shares for which timely notice of redemption has been provided, to the Members, but only to the extent that the payment thereof to the Members does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization.

10.2.2 Notwithstanding the preceding provisions of this Section, distributions of Company cash or assets in liquidation of Company shall be made in accordance with paragraph 7.2 and distributions in liquidation of the Interest Holder's interest where there is no liquidation of the Company shall be made in accordance with Paragraph 4.3.

10.3 Distribution and Liquidation of Interest Holder's Interest. In the event of a distribution to an Interest Holder in liquidation of his interest in the Company which does not result in, or is not a part of, a liquidation of the Company under Article 7.2:

10.3.1 All of the assets of the Company including without limitation the goodwill and/or going concern value of the Company, shall be deemed to be sold at their then fair market

value and the Capital Account of the Interest Holder receiving the liquidating distribution shall be adjusted in accordance with Article 3.7 to reflect such sale.

10.3.2 Liquidating distributions in cash shall be distributed, to the extent possible, to such Interest Holder in accordance with such Interest Holder's positive Capital Account balance after adjustment in accordance with paragraph 3.7 and in accordance with the requirements of Treasury Regulation Section 1.704-1(b)(2)(ii)(b).

10.4 Transfer of Interest in Company by any Interest Holder. In the event of a permitted transfer under Article 6.3 hereof of an interest in the Company by any Interest Holder, Net Profits and Net Losses shall be allocated to the persons who were Interest Holders during the first fiscal period from which such allocation is to be made, based upon the number of days in such fiscal period during which the person was an Interest Holder in the Company, subject, however, to Section 706(d) of the Code.

10.5 Allocations Among Interest Holders.

10.5.1 In the even there is more than one member, all allocations to the Members collectively, shall be allocated to each Member in accordance with that Member's percentage as of the time of such allocation.

10.5.2 All allocations to the Limited Members collectively shall be allocated to such Limited Members in accordance with the percentage, to be determined at the time of such allocation, equal to such Limited Member's adjusted capital contribution divided by the sum of all Limited Member's adjusted capital contributions.

10.5.3 Withholding. All amounts required to be withheld pursuant to Section 1446 of the Code or any other provision of federal, state, or local tax law shall be treated as amounts actually distributed to the affected Interest Holders for all purposes under this Agreement.

4.5.4. Other Allocations. All items of Company income, gain, loss, deduction and credit the allocation of which is not otherwise provided for in this Agreement, including allocation of such items for tax purposes, shall be allocated among the Members in the same proportions as they share Profits or Losses for the taxable year pursuant to this Article IV.

10.6 Liquidation and Dissolution.

10.6.1 If the Company is liquidated, the assets of the Company shall be distributed to the Interest Holders in accordance with the balances in their respective Capital Accounts, after taking into account the allocations of Profit or Loss pursuant to *Sections* 4.1 or 4.2.

10.6.2 No Interest Holder shall be obligated to restore a Negative Capital Account.

10.7 General.

10.7.1 Except as otherwise provided in this Agreement, the timing and amount of all distributions shall be determined by the General Managers.

10.7.2 If any assets of the Company are distributed in kind to the Interest Holders, those assets shall be valued on the basis of their fair market value, and any Interest Holder entitled to any interest in those assets shall receive that interest as a tenant-in-common with all other Interest Holders so entitled. Unless the Members otherwise agree, the fair market value of the assets shall be determined by an independent appraiser who shall be selected by the General Managers. The Profit or Loss for each unsold asset shall be determined as if the asset had been sold at its fair market value, and the Profit or Loss shall be allocated as provided in Section 4.2 and shall be properly credited or charged to the Capital Accounts of the Interest Holders prior to the distribution of the assets in liquidation pursuant to Section 4.4.

10.7.3 The General Managers are hereby authorized, upon the advice of the Company's tax counsel, to amend this Article IV to comply with the Code and the Regulations promulgated under Section 704(b) of the Code; provided, however, that no amendment shall materially affect distributions to an Interest Holder without the Interest Holder's prior written consent.

ARTICLE 11 – DISTRIBUTIONS

11.1 Cash Distributions.

11.1.1 Nonliquidating Distributions. Distributions of Cash Available for Distribution, other than distributions in liquidation pursuant to Section 11.1.2 shall be made pursuant to Article 10, above.

11.1.2 Distributions in Liquidation. Notwithstanding Section 11.1.1, distributions in liquidation of the Company shall be made to each Unit Holder in the manner set forth in Section 14.3.3.

11.2 Distributions in Kind. Non-cash assets, if any, shall be distributed in a manner that reflects how cash proceeds from the sale of such assets for fair market value would have been distributed (after any unrealized gain or loss attributable to such non-cash assets has been allocated among the Unit Holders in accordance with Article 10).

11.3 Withholding; Amounts Withheld Treated as Distributions. The Manager is authorized to withhold from distributions, or with respect to allocations or payments, to Unit Holders and to pay over to the appropriate federal, state or local governmental authority any amounts required to be withheld pursuant to the Code or provisions of applicable state or local law. All amounts withheld pursuant to the preceding sentence in connection with any payment,

distribution or allocation to any Unit Holder shall be treated as amounts distributed to such Unit Holder pursuant to this Article 11 for all purposes of this Agreement.

11.4 Limitation Upon Distributions. No distribution to Members or to Economic Interest Owners shall be declared or paid unless, prior to distribution, all accumulated and unpaid Yield to Limited Members shall have been paid. No distribution shall be declared and paid unless, after the distribution is made, the assets of the Company are in excess of all liabilities of the Company, except liabilities to Members on account of their contributions.

ARTICLE 12 – ACCOUNTING, BOOKS, AND RECORDS

12.1 Accounting Principles. The Company's books and records shall be kept, and its income tax returns prepared, under such permissible method of accounting, consistently applied, as the Manager determines is in the best interest of the Company and its Unit Holders.

12.2 Interest on and Return of Capital Contributions. No Unit Holder shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

12.3 Loans to Company. Nothing in this Agreement shall prevent any Unit Holder from making secured or unsecured loans to the Company.

12.4 Accounting Period. The Company's accounting period shall be the calendar year.

12.5 Records, Audits and Reports. At the expense of the Company, the Manager shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at it principal place of business the following records:

12.5.1 A current list and past list, setting forth the full name and last known mailing address of each Member, Economic Interest Owner and Manager;

12.5.2 A copy of the Certificate of Formation and all amendments thereto;

12.5.3 Copies of this Agreement and all amendments hereto;

12.5.4 Copies of the Company's federal, state, and local tax returns and reports, if any, for the three most recent years;

12.5.5 Minutes of every meeting of the Unit Holders and any written consents obtained from Unit Holders for actions taken by Unit Holders without a meeting; and

12.5.6 Copies of the Company's financial statements for the three most recent years.

12.6 Tax Matters Partner.

12.6.1 Designation. The Manager, or if the Manager is ineligible to serve then the Unit Holder with the largest interest in Company profits, shall be the "tax matters partner" of the Company for purposes of Code Section 6221 et seq. and corresponding provisions of any state or local tax law.

12.6.2 Expenses of Tax Matters Partner; Indemnification. The Company shall indemnify and reimburse the tax matters partner for all reasonable expenses, including legal and accounting fees, claims, liabilities, losses and damages incurred in connection with any administrative or judicial proceeding with respect to the tax liability of the Unit Holders attributable to the Company. The payment of all such expenses shall be made before any distributions are made to Unit Holders (and such expenses shall be taken into consideration for purposes of determining Distributable Cash) or any discretionary Reserves are set aside by the Manager. Neither the tax matters partner nor any Member shall have any obligation to provide funds for such purposes. The provisions for exculpation and indemnification of the Manager set forth in Section 5.3 of this Agreement shall be fully applicable to the Member acting as tax matters Person for the Company.

12.7 Returns and Other Elections. The Manager shall cause the preparation and timely filing of all tax and information returns required to be filed by the Company pursuant to the Code and all other tax and information returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Unit Holders within a reasonable time after the end of the Company's fiscal year.

Except as otherwise expressly provided to the contrary in this Agreement, all elections permitted to be made by the Company under federal or state laws shall be made by the Manager in his sole discretion.

ARTICLE 13 -- TRANSFERABILITY

13.1 General. Except as otherwise expressly provided in this Agreement, neither a Member nor an Economic Interest Holder shall have the right to:

13.1.1 sell, assign, transfer, exchange or otherwise transfer for consideration, (collectively, "sell" or "sale"),

13.1.2 gift, bequeath or otherwise transfer for no consideration whether or not by operation of law, except in the case of bankruptcy (collectively "gift"), all or any part of his Membership Interest or Economic Interest. Each Member and Economic Interest Holder hereby acknowledges the reasonableness of the restrictions on sale and gift of Membership Interests imposed by this Agreement in view of the Company's purposes and the relationship of the Members and Economic Interest Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable. In the event that any Unit Holder pledges or otherwi

his Membership Interest or Economic Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 13.

13.2 First Refusal Rights.

13.2.1 A Unit Holder desiring to sell all or any portion of its Membership Interest or Economic Interest to a third party purchaser shall obtain from such third party purchaser a bona fide written offer to purchase such Interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor. Such Unit Holder shall give written notice to the other Unit Holders and the Manager of its intention to so transfer such Interest. Such notice shall set forth the complete terms of the written offer to purchase and the name and address of the proposed third party purchaser.

13.2.2 The other Unit Holders, shall, on a basis pro rata to their Units or on a basis pro rata to the Units of those remaining Unit Holders exercising their first refusal rights, have the first right to purchase all (but not less than all) of the Interests proposed to be sold by the selling Unit Holder upon the same terms and conditions stated in the notice given pursuant to Section 13.2.1 by giving written notice to the other Unit Holders and the Manager within ten (10) days after such notice from the selling Unit Holder. The failure of the Unit Holder to so notify the other Unit Holders and the Manager of its desire to exercise its first refusal rights within said ten (10) day period as required by this Section 13.2.2 shall result in the termination of such Unit Holder's first refusal rights.

Within ten (10) days after expiration of the ten (10) day period specified in the preceding paragraph, the Manager shall notify those Unit Holders electing to exercise their first refusal rights of any Units that the other Unit Holders did not elect to purchase. Those Unit Holders exercising first refusal rights in accordance with the preceding paragraph shall then notify the Manager and the other purchasing Unit Holders whether they elect to purchase such remaining Units, which shall be pro rata or allocated in such other manner as the purchasing Unit Holders shall agree. If no such notification is received by the Manager from any such Unit Holders in accordance with this paragraph, no Unit Holder shall have any further first refusal rights with respect to such Units.

If Unit Holders have elected to purchase all of the Units offered by the selling Unit Holder, the selling Unit Holder shall sell such Units upon the same terms and conditions specified in the notice required by Section 13.2.1, and the purchasing Unit Holders shall have the right to close the purchase within thirty (30) days after receipt of notification from the Manager that such Unit Holders have elected to purchase the selling Unit Holder's Units.

If Unit Holders do not elect to purchase all of the Units offered by the selling Unit Holder in accordance with this Section 13.2, then the selling Unit Holder shall be entitled to sell such Units to the third party purchaser in accordance with the terms and conditions upon which the purchase is to be made as specified in the notice under Section 13.2.1. However, if such sale is not completed within thirty (30) days following expiration of the other Unit Holders' first refusal rights

under this Section 13.2, then the selling Unit Holder shall not be entitled to complete the sale to such third party purchaser and the selling Unit Holder's Units shall continue to be subject to the rights of first refusal set forth in this Section 13.2 with respect to any proposed subsequent transfer.

13.2.3 Upon the purchase or the gift of a Membership Interest or an Economic Interest, and as a condition to recognizing the effectiveness and binding nature of any sale or gift and (subject to Section 13.3 below) substitution of a Person as a new Unit Holder, the Manager may require the transferring Unit Holder and the proposed purchaser, donee or successor-in-interest, as the case may be to execute, acknowledge and deliver to the Manager such instruments of transfer, assignment and assumption and such other agreements and to perform all such other acts that the Manager may deem necessary or desirable to:

13.2.3.1 constitute such Person as a Unit Holder;

13.2.3.2 confirm that the Person desiring to become a Unit Holder, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement (whether such Person is to be admitted as a Member or will merely be an Economic Interest Owner);

13.2.3.3 maintain the status of the Company as a partnership for federal tax purposes; and

13.2.3.4 assure compliance with any applicable state and federal laws, including securities law and regulations.

13.2.4 Any sale or gift of a Membership Interest or Economic Interest or admission of a Member in compliance with this Article 13 shall be deemed effective as of the last day of the calendar month in which the remaining Members' consent thereto was given, or, if no such consent was required pursuant to Section 13.3, then on such date that the transferor and the transferee both comply with Section 13.2.3. The transferring Unit Holder hereby indemnifies the Company and the Manager against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 13.

13.2.5 Subject to Section 13.3, a Unit Holder may gift all or any portion of its Membership Interest and Economic Interest (without regard to Section 13.2.1 and 13.2.2), provided, that the donee complies with Section 13.2.3 and further provided that the donee is either such Unit Holder's spouse, former spouse, or lineal descendent (including adopted children). In the event of the gift of all or a portion of a Unit Holder's Membership Interest or Economic Interest to one or more donees who are under 18 years of age, one or more trusts shall be established to hold the gifted interest(s) for the benefit of such donee(s) until all of the donee(s) reach the age of at least 18 years.

13.3 Transferee Not Member in Absence of Consent.

13.3.1 Notwithstanding anything to the contrary in this Article 13, if the sale or gift of a Member's membership interest to a transferee or donee who is not a Member immediately prior to the sale or gift is not approved in writing by all of the other Members, in their sole discretion, then the proposed transferee or donee shall have no right to participate in the management of the business and affairs of the Company or to become a Member.

13.3.2 Promptly following any sale or gift of a Member's interest which does not at the same time transfer the balance of the rights associated with such Person's membership interest, the Company shall purchase from such Person, and such Person shall sell to the Company for a purchase price of $100, all such remaining rights and interests retained by such Person which immediately prior to such sale or gift were associated with the transferred economic interest. The acquisition by the Company of such Person's rights shall not cause a dissolution of the Company and such Person shall no longer be a Member.

ARTICLE 14 -- DISSOLUTION AND TERMINATION

14.1 Dissolution. The Company shall be dissolved upon the occurrence of any of the following events:

14.1.1 upon expiration of the term specified in Section 2.4;

14.1.2 by the written agreement of all Members; or

14.1.3 a Person ceases to be a Member upon the occurrence of any of the events specified in Section 25.15.130 of the Act, unless the business of the Company is continued with the consent of all of the remaining Members within ninety (90) days following the occurrence of such event.

14.2 Allocation of Net Profit and Loss in Liquidation. The allocation of Net Profit, Net Loss and other items of the Company following the date of dissolution, including but not limited to gain or loss upon the sale of all or substantially all of the Company's assets, shall be determined in accordance with the provisions of Articles 10 and 11 and shall be credited or charged to the Capital Accounts of the Unit Holders in the same manner as Net Profit, Net Loss, and other items of the Company would have been credited or charged if there were no dissolution and liquidation.

14.3 Winding Up, Liquidation and Distribution of Assets. Upon dissolution, the Manager shall immediately proceed to wind up the affairs of the Company, unless the business of the Company is continued as provided in this Article 14. The Manager shall sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Manager may determine to distribute any assets to the Unit Holders in kind) and shall apply the proceeds of such sale and the remaining Company assets, subject to the limitations imposes in Article 7 in favor of Limited Members, in the following order of priority:

14.3.1 Payment of creditors, including Members and Managers who are creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of the Company, other than liabilities for distributions to Members;

14.3.2 To establish any reserves that the Manager deems reasonably necessary for contingent or unforeseen obligations of the Company and, at the expiration of such period as the Manager shall deem advisable, the balance then remaining in the manner provided in Paragraph (c) below;

14.3.3 By the end of the taxable year in which the liquidation occurs (or if later, within ninety (90) days after the date of such liquidation), to the Unit Holders in proportion to the positive balances of their respective Capital Accounts, as determined after taking into account all Capital Account adjustments for the taxable year during which the liquidation occurs (other than those made pursuant to this Section 14.3.3.

14.4 No obligation to Restore Negative Capital Account Balance on Liquidation. Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), if any Unit Holder has a negative Capital Account balance (after giving effect to all contributions, distributions, allocations and other Capital Account adjustments for all taxable years, including the year during which such liquidation occurs), such Unit Holder shall have no obligation to make any Capital Contribution to the Company, and the negative balance of such Unit Holder's Capital Account shall not be considered a debt owed by such Unit Holder to the Company or to any other Person for any purpose whatsoever.

14.5 Termination. The Manager shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets. Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

14.6 Certificate of Cancellation. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Unit Holders, the Manager shall file a certificate of cancellation as required by Section 203 of the Act. Upon filing the certificate of cancellation, the existence of the Company shall cease, except as otherwise provided in the Act.

14.7 Return of Contribution Nonrecourse to Other Members. Except as provided by law or as expressly provided in this Agreement, upon dissolution each Unit Holder shall look solely to the assets of the Company for the return of its Capital Contribution. If the property remaining after the payment or discharge of liabilities of the Company is insufficient to return the contributions of Unit Holders, no Member shall have recourse against any other Unit Holder.

ARTICLE 15 -- INDEPENDENT ACTIVITIES OF MANAGERS AND MEMBERS

Any Manager or Member may engage in or possess an interest in other business ventures of every nature and description, independently or with others, including but not limited to, the ownership, financing, management, employment by, lending to or otherwise participating in businesses which are similar to the business of the Company, and neither the Company nor any of the Managers or Members shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits therefrom.

ARTICLE 16 -- MISCELLANEOUS PROVISIONS

16.1 Notices. Any notice, demand, or communication required or permitted under this Agreement shall be deemed to have been duly given if delivered Personally to the party to whom directed or, if mailed by registered or certified mail, postage and charges prepaid, addressed (a) if to a Member, to the Member's address specified on attached Schedule 1, (b) if to the Company, to the address specified in Section 2.2, and (c) if to the Manager, to the address specified in Section 2.3. Except as otherwise provided herein, any such notice shall be deemed to be given when Personally delivered or, if mailed, three (3) business days after the date of mailing. A Member, the Company or the Manager may change its address for the purposes of notices hereunder by giving notice to the others specifying such changed address in the manner specified in this Section 16.1.

16.2 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Washington, and particularly in accordance with the Act.

16.3 Amendments. This Agreement may not be amended except by the unanimous written agreement of all of the Members.

16.4 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

16.5 Headings. The headings in this Agreement are inserted for convenience only and shall not affect the interpretations of this Agreement.

16.6 Waivers. The failure of any Person to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

16.7 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy shall not preclude or waive the

right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

16.8 **Severability.** If any provision of this Agreement or the application thereof to any Person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

16.9 **Heirs, Successors and Assigns.** Each of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

16.10 **Creditors.** None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

16.11 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

16.12 **Investment Representations.** Membership interests have not been registered under the Securities Act of 1933, the Securities Act of Washington or any other state securities laws (collectively, the "Securities Acts") because the Company is organized in reliance upon the exemptions from the registration requirements of the Securities Acts, and the Company is relying upon the fact that membership interests are to be held by Members for investment purposes only. Accordingly, each Member hereby confirms his or her interest has been acquired for his or her own account, for investment and not with a view to the resale or distribution thereof and may not be offered or sold to anyone unless there is an effective registration or other qualification relating thereto under all applicable Securities Acts or unless such Member delivers to the Company an opinion of counsel, satisfactory to the Company, that such registration or other qualification is not required. The Members understand that the Company is under no obligation to register membership interests or to assist any Member in complying with any exemption from registration under the Securities Acts.

Executed by the undersigned Member effective as of the date first above written.

N W L.L.C.

BY: Kevin Byrne
ITS: Managing Member

Schedule 1

Member Information

Name	Address	Initial Capital Contribution	Percent Interest
N W L.L.C.	7610-40th Street West PO Box 64176 University Place WA 98466		100%

Schedule 2

Allocation methods under Code Section 704(c)
with Respect to Contributed or Revalued Property

MEMORANDUM NO. ____

AMENDED PRIVATE PLACEMENT MEMORANDUM
NW COMMERCIAL LOAN FUND, LLC

7610-40th Street West
Post Office Box 64176
University Place WA 98464-0176
(253) 565-7255

OFFERING PRICE - $1.00 Per Unit

20,000,000 Profit Participation Units
Total Offering: $20,000,000

NW COMMERCIAL LOAN FUND LLC, a Washington limited liability company (the "Company") was organized to invest primarily in promissory notes secured by mortgages or deeds of trust on commercial real estate in the United States.

Limited Members will be entitled to payment of a cumulative preferred indexed rate of return (the "Yield") which is subject to future adjustment by the Company upon written notice provided at least 90 days prior to the beginning of the calendar quarter during which the adjustment will become effective. (See "The Company and Its Management" and "Yield.")

THIS PRIVATE PLACEMENT TELLS INVESTORS BRIEFLY THE INFORMATION THEY SHOULD KNOW BEFORE INVESTING IN THE COMPANY. INVESTORS SHOULD READ AND RETAIN THIS PRIVATE PLACEMENT MEMORANDUM FOR FUTURE REFERENCE.

	Price to Public	Underwriting Commissions*	Proceeds to Company
Per Unit	$1.00	None	$20,000,000
Total:	$20,000,000	None	$20,000,000

*This Private Placement Memorandum is not underwritten. The Company is offering these securities to the public solely through its Officers and Members on a best-efforts basis. No commissions, fees or other remuneration will be paid in connection with the selling effort.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PRIVATE PLACEMENT MEMORANDUM AND ITS TERMS, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR BY THE SECURITIES DIVISIONS OF THE STATE OF WASHINGTON. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO AGENT OR OFFICER OF THE COMPANY OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THE PRIVATE PLACEMENT MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.

THIS PRIVATE PLACEMENT MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PRIVATE PLACEMENT MEMORANDUM NOR ANY SALE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE
CHANGE IN THE AFFAIRS OF THE COMPANY SINCE

THE UNITS OFFERED IN THIS PRIVATE PLACEMENT MEMORANDUM ARE OFFERED ONLY TO ACCREDITED INVESTORS, AS THAT TERM IS DEFINED IN WAC 460-44A-501, AND PURSUANT TO WAC 460-44A-504, AND RULE 147 OF THE SECURITIES AND EXCHANGE COMMISSION OF THE UNITED STATES

The date of this Amended Private Placement Memorandum is July __, 1999.

TABLE OF CONTENTS

I. SUMMARY

A. General Comments.

NW Commercial Loan Fund, LLC (the "Company") is a Washington limited liability company formed on May 11, 1998.

This Memorandum sets forth the investment objectives and method of operation of the Company, the principal terms of the Limited Liability Company Operating Agreement (the "Agreement") and certain other pertinent information. However, this Memorandum does not set forth all the provisions and distinctions of the Agreement that may be significant to a particular prospective Investor. Each prospective Investor should carefully examine this Memorandum, the Agreement, and the Subscription Agreement in order to assure that the terms of the Agreement and the Company's investment objectives and method of operation are satisfactory to him or her.

Prospective Limited Members are invited to review any materials available to the General Manager relating to the Company, the proposed operations of the Company and any other matters regarding this Memorandum. The Company's legal counsel has furnished the Company with an opinion as to the treatment of the Company as a partnership for federal income tax purposes. All such materials will be made available at the office of the Company at 7610-40th Street West, Post Office Box 64176, University Place, Washington, 98464-0176, at any reasonable hour after reasonable prior notice. N W L.L.C., the General Manager, will afford prospective Limited Members the opportunity to ask questions of and receive answers from the General Manager concerning the terms and conditions of the offering, and to obtain any additional information to the extent that the General Manager or the Company possesses such information or can acquire it without unreasonable effort or expense.

Purchase of Units of interest in the Company (the "Units") should be considered a speculative high risk investment and is not intended as a complete investment program. Investment in the Company is designed only for sophisticated persons who are able to bear a substantial loss of their capital contributions in the Company.

B. Fund Purpose.

The Company is a limited liability company formed under the laws of the state of Washington for the purpose of investing and trading primarily in (1) promissory notes secured by mortgages or deeds of trust on commercial real property in the United States in accordance with the proposed investment objectives and restrictions set forth in this Memorandum and the Operating Agreement. Admission as a Limited Member in the Company is not open to the general public.

C. Minimum Purchase.

The minimum initial investment for a Limited Member is $25,000, unless the General Manager, in its discretion, elects to permit smaller investments in particular cases.

D. Investment Objectives And Strategies.

The investment objective of the Company is to generate interest income and capital gains while preserving the original invested capital. The Company will attempt to achieve long term capital growth by encouraging Interest Holders to accumulate earnings as additional units in their capital accounts for reinvestment by the Company. However, Interest Holders for whom current income is an objective will be permitted to withdraw earnings quarterly.

E. General Manager.

The General Manager of the Company is N W L.L.C. (the "General Manager"). N W L.L.C. is a limited liability company which was formed in 1995.

The General Manager will have exclusive power and authority with respect to the administration of the Company and all aspects of the Company's investments.

F. Plan Of Distribution.

The units are being offered on a "best efforts" basis. Units will generally be sold directly by the Company. Neither the Company nor the General Manager will receive commissions or other compensation for sales made in this manner.

The Company reserves the right, in certain situations, subject to all applicable laws, to compensate registered broker-dealers or registered investment advisors who introduce prospective Limited Members to the Company. Such compensation shall be in amounts which the General Manager deems reasonable and appropriate. In no case will such compensation be charged against a Limited Member's capital account. Any broker-dealer or investment advisor compensated for making such introductions shall be a member of the National Association of Securities Dealers, Inc., or other appropriate regulatory body, and registered as a broker-dealer or investment adviser as required in any state in which Interests will be offered. (See "Terms of the Offering.")

G. Timing Of Investments.

Units may be invested monthly. (See "Contributions and Withdrawals of Capital.")

H. Timing Of Withdrawals.

Units may be withdrawn at the end of any calendar quarter by the redemption of units, on written notice of the General Manager provided at least 60 days prior to the end of the quarter.

I. Timing Of Withdrawals,Reports To Interest Holders.

Each Interest Holder will receive quarterly reports of performance, quarterly capital account statements, audited annual financial statements and necessary tax information.

J. Participation by the Members in Company Earnings.

The Limited Members will be entitled to receive, as their share of Company cash available for distribution, the lesser of (1) 99% of the Company's cash available for distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield"), compounded and payable quarterly, calculated as a percentage of each Limited Member's Adjusted Capital Contribution as defined in the Operating Agreement. The Yield is defined as an annual rate which is initially 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15 year GNMA securities (the "GNMA Rate") as published from time to time in *The Wall Street Journal*. It is adjustable from quarter to quarter on ninety days advance written notice by the Fund, (See, "The Company and Its Management-The Yield.")

After payment of all amounts due the Members, including amounts for redemption of Units for which timely notice of redemption was given, the Members will be entitled to receive, as their residual participation, all Company Cash Available for Distribution to the extent they exceed the amounts to which the Limited Members are entitled, and to the extent payment thereof does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization required by the Operating Agreement. The Members will be entitled to receive payments of their participation on a quarterly basis. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

K. Expenses.

The Members will pay on behalf of the Company, in consideration of their participation in Company profits, all expenses relating to office space, equipment, supplies, telephone, salaries of [illegible] and recording of transactions [illegible]

professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses, will also be expenses paid by the Members.

II. THE FUND AND ITS MANAGEMENT

A. The Fund.

NW Commercial Loan Fund, LLC, is a limited liability company formed and organized under the laws of the state of Washington on May 11, 1998. The Company commenced business in May 1998. Although the Company is not an investment company subject to registration under the provisions of the Investment Company Act of 1940 (the "Act"), it engages in investment activities which would qualify it, were it not exempt from the Act, as an "open-end nondiversified[1] management company" as defined in the Act. The General Manager will restrict the total number of Members and Limited Members to 225 or fewer and will offer the units only through non-public transactions in order to maintain the Company's exemption from "investment company" status under the Act.

B. The Yield.

The Company will pay each Limited Member a cumulative preferred rate of return (defined hereinabove as the "Yield") on the Limited Member's units invested. The Yield is initially defined as 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15-year GNMA securities as published from time to time in *The Wall Street Journal*.

The Yield will be payable quarterly and may be adjusted quarterly in the discretion of the General Manager, subject to the requirement that Limited Members be given adequate advance notice (90 days prior to the beginning of the quarter during which the adjustment will become effective) of any adjustment and an opportunity to redeem their units prior to the effective date of the adjustment.

The General Manager shall also be entitled to transfer from the Company to the Members, as an additional amount of its residual participation, any Surplus Cash or Mortgages held by the Company after payment of all current and accrued Yield. For purposes of the Operating Agreement, "Surplus Cash or Mortgages" is defined as the amount of cash or Mortgages in the Company's portfolio which is in excess of the Minimum Portfolio Capitalization.

The Yield will be cumulative. If the Yield is not paid for a particular quarter, the amount not paid will be accrued and paid in the following quarter or in the next quarter for which the Company has funds available for payment, together with compounded returns on the accrued Yield at the appropriate subsequent Yield rates. Yield will be compounded quarterly, both on funds invested and on accrued and unpaid Yield from prior periods.

The Yield will also be preferred. After payment to the Members of one percent (1%) of all Cash Available for Distribution, Limited Members will be entitled to payment of all Yield for the current quarter and Yield accrued but unpaid for any previous quarters before any additional payments of Company earnings are made to the Members.

C. Participation in Company Earnings by the Members.

The Members will be entitled to one percent (1%) of all Cash Available for Distribution, paid quarterly. After payment to the Limited Members of the current Yield and all accrued but unpaid Yield from any previous

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[1] The Act defines a "diversified company" as "a management company which meets the following requirements: at least 75% of the value of its total assets is represented by cash and cash items (including receivables), Government securities, securities of other investment companies, and other

quarters, and after all redemptions of units for which timely request has been received have been fully funded and paid, the remaining Cash Available for Distribution of the Company shall be paid to the Members as their residual participation, subject only to the Minimum Portfolio Capitalization requirement specified in the LLC Agreement. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

D. The Members and the General Manager.

The Member of the Company is N W L.L.C. N W L.L.C. is a Member and is the General Manager of the Company. N W L.L.C. is a limited liability company organized under the laws of the laws of the state of Washington, is domiciled in University Place, Washington, and commenced operation in 1995. N W L.L.C. is primarily engaged in the origination and sale of commercial loans.

The General Manager has full ultimate authority to conduct the business of the Company, including the making and execution of all investment decisions. The Company's performance depends to a great extent on the ability of the General Manager to manage the Company's assets.

The Investment Committee of the Company is comprised of two of the corporate officers of N W L.L.C. The education and experience of these officers are as follows:

Kevin M. Byrne, 41, is the Chief Executive Officer of the N W L.L.C. Prior to his employment with the N W L.L.C., Mr. Byrne was the Chief Executive Officer of Northwest Community Bank in Tacoma, Washington having held that position since 1990. Prior to that he was a commercial loan officer at Key Bank in Tacoma, Washington. Prior to that time, he was a loan officer at Puget Sound National Bank also in Tacoma, Washington.

Kerry Keely, 43, a Senior Vice President of NW L.L.C., has left the Company.

Robert Coleman, 53, is the President of NW L.L.C. and will assume Mr. Keely's responsibilities on the Investment Committee. Mr. Coleman is also Vice President and Treasurer of NW Funding BR Corp. and a participant in NW Funding L.L. C., both wholly owned by NW L.L.C. Formerly, Mr. Coleman was President of Northwest Community Bank. He has been in the banking business for over 30 years.

III. INVESTMENT OBJECTIVES AND POLICIES

A. General Objectives.

The objective of the Company is to generate consistent and attractive levels of interest income and capital gains by investing in and actively managing a portfolio of Mortgages. The Company will aim to preserve the Members' and Limited Members' original invested capital while generating long-term capital growth for those Limited Members who choose to reinvest their earnings. The Company will make earnings available quarterly for those Limited Members who place a priority on current income.

B. Investment Policy.

The Company's investment policy reflects a philosophy which concentrates on achieving attractive rates of return while experiencing acceptable levels of risk. The Company expects that at least 65% of the Company's assets will be invested in commercial loans that are of A or B quality. The Company may invest up to 35% of its assets in higher risk commercial loans, including "hard money" loans.

The Company does not intend to use borrowed funds to achieve leverage in investing in Mortgages, nor will the Company purchase options or engage in short selling or hedging of Mortgage investments.

The Company will use prudent standards of

$5,000,000. The Company will permit investments in short-term assets based on evaluation of risk. For purposes of this Memorandum, "long term" assets are assets typically held for approximately one year or more, which "short term" assets typically are held approximately less than one year.

In evaluating Mortgages for investment, the General Manager will follow general guidelines, subject to waiver or exception only in a limited number of instances. The general guidelines are as follows:

(1) Property Types.

The Company will generally invest in Mortgages on commercial real estate in the United States. The Company will loan money on many property types to create diversification. Principally, the underlying collateral will be income producing types such as office, retail, warehousing, multi-family housing, mobile home parks, and healthcare. Underwriting will review total income, future income, and position the collateral holds in the market. Non-income producing projects will generally not be underwritten, except that the Company is specifically authorized to invest in construction loans. Collateral that is not commercial real estate maybe taken as extra collateral (i.e., home, equipment, etc.).

(2) Priority of Mortgages.

The Company will primarily invest in Mortgages in not less than a first lien position—deeds of trust and mortgages. Provided, however, the General Manager have the discretion to invest in mortgages which are in a lower lien position if the General Manager determine such investment to be appropriate for the Company.

(3) Investment to Value Ratios.

The Company will generally invest in Mortgages which provide adequate protection for the Company's equity interest in the underlying real estate. Loan to values will not generally exceed 75% of value in "A" and "B" borrowers and 65% in "hard money" borrowers.

(4) Property Value Determination.

The General Manager will generally determine value of the real property underlying a Mortgage by using as many valuation factors as the General Manager believes are appropriate for a given property, including, without limitation, last sale price and date, assessed value, appraised value, and property value index for a specific region.

(5) Credit History.

The Company will generally not invest in Mortgages in default. The General Manager will maintain a computer link to Equifax Credit Services or other comparable credit reporting agency for checking and monitoring creditworthiness of debtors on Mortgages. The General Manager will also review county records to determine that property taxes are current. Adequate insurance will generally be required on properties.

(6) Title Insurance.

The Company will generally purchase a lender's policy of title insurance, or an endorsement to an existing policy, on each Mortgage acquired.

(7) Purchase of Mortgages from Members.

The Company expects that many of the mortgages which it purchases will have been originated by N W L.L.C., and N W L.L.C. may continue to service the mortgages purchased by N W L.L.C., and N W L.L.C. may

(8) Exceptions.

One or more of the investment policy guidelines adopted by the Fund may be waived in exceptional situations where the General Partner determines that a Mortgage is appropriate for the Fund's portfolio even though it does not conform to all policy guidelines. In no event, however, will the General Partner permit more than ten percent (10%) of the Fund's assets to be invested in such nonconforming Mortgages.

C. Minimum Portfolio Capitalization.

The General Manager shall use its best efforts to maintain at all times a portfolio of cash and performing Mortgages (the "Minimum Portfolio Capitalization") the value of which is greater than or equal to 115% of the value of all outstanding Units of the Company and all accrued but unpaid Yield, each unit being deemed to have a value of One Dollar ($1.00). The General Manager shall determine the value of any Mortgages held by the Company, for purposes of establishing Minimum Portfolio Capitalization, by calculating the aggregate remaining principal balance outstanding on all Mortgages, without premium or discount based on interest rates then prevailing, collectability of the Mortgage obligation, or any other factors. It is the intent of the Company and the General Manager that the Minimum Portfolio Capitalization will generate sufficient income to pay the Yield and any earnings due the Members, and to provide available assets for the redemption of any Units for which redemption requests are received by the Company. If, at any time, the Company does not maintain its Minimum Portfolio Capitalization, the Member will receive not receive any of its residual share of the Company's Cash Available for Distribution until the Company can once again meet and maintain its Minimum Portfolio Capitalization requirements.

D. Not A "Tax Shelter."

The investment objectives of the Company do not include the production of tax deductions and tax credits which would reduce an Interest Holder's taxable income or the tax liability thereon from other sources for tax purposes. (See "Federal Income Tax Considerations" and "Risk Factors - Certain Tax Related Risks.")

E. Company Expenses.

The General Manager is authorized to incur all expenses on behalf of the Company which they deem necessary or desirable. The organizational expenses of the Company (including expenses of the original offer and sale of units), will be paid by the Members.

The Member will pay on behalf of the Company, in consideration of its participation in Company profits, all expenses relating to office space, equipment, supplies, telephone, salaries of in-house personnel, servicing, escrow and recording of transactions, the purchase, sale, trade, custody, transfer, or insurance of Company assets and other services which are part of the day-to-day administration of the Company, including expenses for third-party professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses, will also be expenses paid by the Member.

IV. TERMS OF THE OFFERING

The Company is soliciting total capital contributions up to $20,000,000. The minimum subscription is $25,000, although the General Manager reserves the right to waive this requirement in particular cases. Units subscribed will be received for investment on the first business day of each month.

A. Price Of Interests.

The Limited Members making a capital contribution will receive, in return, Units in an Unit per dollar invested. The Limited Member's interest in the Company

B. Expenses Of The Offering.

Legal, accounting, and printing costs, administrative filing fees, and organizational expenses accrued in connection with the continuing offering of Units will be paid by the Member.

C. Duration Of Offering.

This offering shall remain open until the maximum subscriptions have been received, or until the Member elects to terminate the offering, whichever is earlier. There is no minimum offering requirement.

D. Plan Of Distribution.

Subscriptions for Units in the Company are being solicited on a best efforts basis by the Member, who will receive no commission for its services in connection with the offering. Capital contributions should be made by cash, certified check or electronic funds transfer, on or before the beginning of each fiscal period.

The Member reserves the right, at its expense, to compensate one or more registered broker dealers or registered investment advisors who introduce prospective Limited Members to the Company. Such compensation, when and if paid, shall be limited to amounts which the Member considers reasonable and appropriate. In no case shall such compensation be charged against a Limited Member's interest or participation in the Company. Any broker-dealer or investment advisor compensated to make such introductions shall be a member of the National Association of Securities Dealers, Inc. or other appropriate regulatory body and registered as a broker-dealer or investment advisor as required in any state in which Units will be offered.

The Units being offered pursuant to this Memorandum have not been registered with the Securities and Exchange Commission or the securities administrator of any state, but are offered pursuant to federal and state exemptions for nonpublic offerings. (See "Who Should Invest.")

The Units are suitable for investment only by qualified individuals and institutions which do not need liquidity with respect to their investments and are capable of assuming the risks associated with the Company's investment program. Some of the Company's investment practices, by their nature, should be considered speculative and to involve a substantial degree of risk. There are special considerations for pension and other retirement plan investors in the Company. (See "Who Should Invest-Investment by Qualified Pension, Profit Sharing and Stock Bonus Plans and Individual Retirement Accounts.")

E. To Become A Limited Member.

To become a Limited Member, an investor meeting the requirements set forth in this Memorandum (see "Who Should Invest") must sign a Subscription Agreement and Special Power of Attorney in the form provided by the Company and provide funds by electronic funds transfer or check in the amount of the subscription to the Company for the investor's Capital Contribution. Instructions for electronic transfer of funds may be obtained from the offices of the Company. The General Manager has the discretion to accept contributions by methods other than electronic funds transfer, under exceptional circumstances. Funds will not be invested, and no Yield will accrue with respect thereto, until such funds are "collected" and available to the Company.

In order to permit the Fund to comply with federal and state securities laws, prospective investors will also be required to fill out and sign a "Purchaser Questionnaire" in the form provided by the Company, and purchaser representatives of those prospective investors who utilize a purchaser representative will be required to fill out and sign a "Purchaser Representative Questionnaire." The information provided by offerees or purchaser representatives in these questionnaires will be maintained as confidential to the fullest extent possible, and it is not intended that such information will be forwarded to any government agency.

F. Approval by the General Manager of all Investments by Limited Members.

The General Manager reserves the right not to admit any proposed Limited Member prior to the acceptance of his or her subscription.

All funds received by the Company from prospective Limited Members will be deposited in trust in an FDIC-insured bank account or invested in secured short-term obligations of the Member pending acceptance for investment by the Company. The Company will incur no liability to pay the Yield on any funds received until the Company has accepted the funds for investment in Mortgages. Until that time, the prospective Limited Member is entitled to receive a refund of his or her funds upon written request and upon three (3) days notice to the General Manager. Funds so returned shall include all interest earned on them while on deposit or invested in trust.

Each prospective Limited Member is invited to meet with the General Manager to discuss with, ask questions of, and receive answers from it concerning the terms and conditions of this offering of Units. The prospective investor may want to obtain additional data that would verify the information contained herein. To the extent the Company possesses such information or can acquire it without unreasonable effort or expense it will be supplied.

No offer shall be considered to have been made by the General Manager until a fully completed set of Subscription documents has been received and approved by the Member.

V. WHO SHOULD INVEST

Investment in the Units offered hereby involves a high degree of risk. The investment will have limited liquidity, no public market for the Units is expected to exist, and the sale or transfer of Units is severely restricted.

Although Limited Members will be entitled to a Yield on their funds invested which is cumulative and preferred over any participation of the Member, there can be no guarantee that the Company will always generate sufficient income to pay the Yield. The Company will follow an investment policy which, if unsuccessful, could involve significant losses. Investment in the Units is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment.

A. Accredited Investors.

The Units will be offered and sold only to "accredited investors" as that term is defined by the federal securities laws. There is no limitation on the number of "accredited investors" except that the total number of Limited Members and Members must be 100 or less to qualify for an exemption from the Investment Company Act of 1940. "Accredited investors" are defined as follows:

(a) Any bank as defined in section 3(a)(2) of the Securities Act of 1933 (the " 1933 Act") or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the 1933 Act whether acting in its individual or fiduciary capacity; any broker/dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the 1933 Act; investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company. or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000; or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;

(b) Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

(c) Any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business Trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

(d) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

(e) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his or her purchase exceeds $1,000,000;

(f) Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(g) Any trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment; or

(h) Any entity in which all of the equity owners are accredited investors.

The above restrictions conform to regulations promulgated by the Securities and Exchange Commission and the Washington State Securities Administrator. Any offers or sales made outside the state of Washington may be required to conform to different standards, and the sale of interests in other states may also affect the suitability standards to be applied in the state of Washington.

Any investor having any question regarding suitability standards or any other aspect of the offering should contact Kevin Byrne, Manager-Member of N W L.L.C. at (253) 565-7255. The General Manager reserves the right to accept or reject any subscription, in its sole discretion.

Units in the Company are offered in reliance upon state and federal exemptions from registration for nonpublic offerings, and the Company will not be registered under the Investment Company Act of 1940. Each prospective investor will be required to satisfy the suitability standard referred to above and to represent that he or she:

* is investing in the Fund for his or her own account, for investment purposes only, and not with a view to distribution;

* is a sophisticated investor (or has a qualified purchaser representative) capable of evaluating the risks and merits of an investment in the Fund;

* has had access to sufficient information needed to make an investment decision about the Fund;and

* can tolerate the illiquidity which is characteristic of limited partnership interests in general and these Units in particular.

Additional suitability requirements or restrictions on investment may be applicable under the laws of certain states in which the Units may be offered.

B. Investment By Qualified Pension, Profit Sharing And Stock Bonus Plans And Individual Retirement Accounts.

The Company operates in a manner designed to ... are qualified ...

Partners must comply with complex fiduciary and tax requirements imposed by the Department of Labor ("DOL") and the Internal Revenue Service ("IRS"). THIS LIMITED DISCUSSION IS NOT INTENDED TO SUBSTITUTE FOR THE ADVICE OF INDEPENDENT, QUALIFIED LEGAL COUNSEL.

A fiduciary considering investing a portion of the assets of a Qualified Plan in the Fund should take into account the particular facts and circumstances of such plan, and should consider among other things: (i) whether the relevant plan instruments permit investing in a limited liability company; (ii) the definition of plan assets under ERISA and the application of DOL regulations; (iii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA; (iv) whether under Section 404(a)(1)(B) of ERISA, the investment is prudent, considering the nature of the investments of the Fund, its compensation structure, and its relative illiquidity; and (v) whether the Fund or the General Manager or any of its affiliates is a fiduciary or a party in interest to the Qualified Plan.

Regulations Concerning "Plan Assets"

Section 406 of ERISA and Section 4975 of the Internal Revenue Code (the "Code") prohibit certain transactions involving "plan assets" of employee benefit plans subject to Title I of ERISA or of any other retirement plan subject to Code Section 4975, such as an IRA. (Any such plan is referred to below as a "plan"). Neither the Code nor ERISA defines the term "plan assets."

In regulations published by the U.S. Department of Labor effective March 13, 1987 (the "Plan Regulations"), an investment by "Benefit Plan Investors" in a limited partnership is not generally considered to be an investment in the underlying assets of the partnership but in the limited partnership interest itself, if, among other things, equity participation interests held by such investors in the partnership are not "significant" as defined in the Plan Regulations, or if the partnership qualifies as an operating company as defined in the Plan Regulations. Benefit Plan Investors are defined in the Plan Regulations to include: all employee benefit plans as defined in Section 3(3) of ERISA, regardless of whether any such plan is subject to Title I of ERISA; any plan described in Section 4975(e)(1) of the Code; and any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. It is expected that the IRS would accord the same treatment to limited liability company investments.

Under the Plan Regulations, participation by Benefit Plan Investors is "significant" on any date if, immediately after the last acquisition, 25% or more of the value of any class of equity interests in the entity (disregarding the holding of the Members or their affiliates other than Benefit Plan Investors) is held by Benefit Plan Investors. The General Manager intends to limit the participation in the Company by Benefit Plan Investors to the extent necessary so that participation by Benefit Plan Investors will not be "significant" within the meaning of the Plan Regulations. Therefore, it is not expected that Company assets will constitute "plan assets" of plans that acquire Units.

Although not expected, if for any reason Company assets were deemed to constitute plan assets: (1) an ERISA Partner's investment in the Units might constitute an improper delegation of fiduciary responsibility to the General Manager and expose the Plan fiduciary to co-fiduciary liability under ERISA for any breach by the Limited Members of any ERISA fiduciary duties; (2) an IRA's investment in the Units might result in an impermissible commingling of plan assets with other property; and (3) the risk of a plan engaging in a prohibited transaction would be increased. Further, a prohibited transaction involving an employee benefit plan could subject a disqualified person to an excise tax and to certain remedial measures imposed by ERISA; a prohibited transaction involving an IRA could result in its disqualification with resulting tax to its beneficiary.

Unrelated Business Taxable Income

Qualified Plans are generally exempt from federal income taxation under the Code. However, Qualified Plans are subject to federal income taxation to the extent they have any "unrelated business taxable income" ("UBTI") (as determined in accordance with Sections 511-514 of the Code) in excess of $1,000 in [illegible]. Company's business will constitute an unrelated [illegible]

income, and capital gains on Mortgage investments, to the extent not "debt financed," are generally exempt from UBTI. (See "Federal Income Tax Considerations-Unrelated Business Taxable Income".)

Fiduciaries should consult their own tax advisors regarding the federal income tax consequences of investing assets of an exempt organization in the Company.

THE FOREGOING DISCUSSION IS MERELY A SUMMARY OF ISSUES A PLAN FIDUCIARY SHOULD EVALUATE WHEN CONSIDERING AN INVESTMENT IN THE FUND. PLAN FIDUCIARIES ARE URGED TO CONSULT THEIR LEGAL ADVISORS BEFORE INVESTING PLAN ASSETS IN UNITS OF THE FUND.

Required Provisions

ERISA investors should be certain that trust agreements allow for investment as a Limited Member in a limited liability company, ERISA Partners are required to furnish a copy of the plan's trust agreement to the General Manager with its subscription documents; however, the General Manager takes no responsibility for assuring that this investment complies therewith. ERISA Plan trustees will also be required to represent to the General Manager that they have reviewed this Memorandum and that they have the authority to invest in the Company.

VI. CONTRIBUTIONS AND WITHDRAWALS OF CAPITAL

A. Admission Of Limited Members And Additional Capital Contributions.

The General Manager may, in its discretion, admit additional Limited Members to the Company, or accept additional capital contributions from existing Limited Members at any time during the Company's fiscal year. Capital contributions shall be made by electronic funds transfer unless the General Manager, in its discretion, permit another method of contribution.

B. Contributions.

Capital may be contributed to the Company by Limited Members effective, under ordinary circumstances, as of the beginning of any calendar month.

C. Withdrawals.

A Limited Member may withdraw all or a part of his or her capital at the end of any calendar quarter, provided that written notice of such withdrawal is given to and actually received by the General Manager at least 60 days before the end of that quarter.

Payments of withdrawals will be made as soon as practicable after the withdrawal date; however, the General Manager has the right to delay payments in extraordinary circumstances.

VII. TRANSACTIONS WITH MANAGEMENT

A. Purchases and Sales of Mortgages with Affiliates.

The Member and its affiliates will be a primary source of supply for the Company in acquiring new Mortgages for its portfolio. There may also be times when the Member or one of its affiliates acquires a Mortgage from the Company in order to provide the Company with liquidity. The Member will not be entitled to receive a commission or other compensation at the time its sells a Mortgage to the Company or finds a Mortgage suitable for investment by the Company, which the Company acquires.

Company, the General Manager may be considered to have a technical conflict of interest to the extent they sell a Mortgage to or buy a Mortgage from the Company. However, the objective valuation methodology adopted by the Company minimizes the risk of an actual conflict of interest in valuing the Mortgages.

The General Manager will use its best efforts to avoid an actual conflict of interest in its purchase and sale decisions. It will adopt a general methodology which will calculate the value of any Mortgage as its total remaining principal balance due.

B. Investments By Affiliates.

From time to time, the General Manager/Members may accept as Limited Members in the Company certain affiliated entities.

C. Other Responsibilities of the General Manager.

The individuals who comprise the executive officers and members of the General Manager are continually faced with demands on their time other than those of the Company and may devote time to other businesses with which they are affiliated. Their devotion of time and energy to other matters may be perceived as a conflict of interest, but will not diminish their responsibilities as fiduciaries of the General Manager.

VIII. RISK FACTORS

An investment in the Company involves risks not associated with other investment alternatives. Prospective investors should carefully consider, among other factors, the risks described below. Such risk-factors are not meant to be an exhaustive listing of all potential risks associated with investment in the Company.

A. Business Risks.

1. Limited of Experience of General Manager. The General Manager and its affiliates have invested in Mortgages for their own accounts in the past. N W L.L.C. has originated and invested in Mortgages for its own account since 1995. Notwithstanding that experience, there can be no assurance that they will be successful in implementing the policies, objectives and strategies described herein. An investment in the Company should be considered to involve a high degree of risk and the investor must be willing and able to weather periods in which the Company pays little or no returns on investment.

2. Reliance on Key People. Kevin Byrne and Kerry Keely, employees of N W L.L.C., will be responsible for providing administrative and executive management services to N W L.L.C. with respect to certain services it will provide for the Company. If either of these people are unable, for any reason, to discharge their duties, the Company might sustain losses, experience a reduction in its returns on investment, or incur delays in liquidating its investment.

3. General Economic Conditions. The success of any investment activity is necessarily affected by general economic conditions, which may affect the level and volatility of interest rates, the values of real estate underlying deeds of trust, mortgages and sellers' interests in real estate contracts, and the capacity of a borrower on a promissory note secured by real property to pay the debt promptly in accordance with the terms of the obligation. There is a risk that adverse general economic conditions could affect the profitability of the Company and its ability to pay the Yield.

4. Concentration of Investments in Certain Geographic Regions. At least during its initial years, the Company will tend to concentrate its investments in Mortgages on properties located in a few western states, such as Washington, Oregon, and Idaho. Real estate markets and values in those states may be subject to risks unique characteristic of each local economy. For example, recessionary influences in [illegible] industries could affect property values and [illegible]

5. Lack of Liquidity. There is no public market to provide liquidity for the Units, and no market is expected to develop. The Company will be the only source of liquidity for the Limited Members, and it is possible that the Company might not be able to liquidate its investments promptly or that there might be more demands for redemption than the Company could redeem at any one time, causing the Company to incur delays or losses in liquidating the Limited Members' investments. Limited Members should expect that the Units will continue to have very limited liquidity.

6. Borrower Defaults. Borrowers and purchasers who are obligated under the Mortgages in which the Company will invest are often persons who do not qualify for conforming or federally guaranteed bank financing and may generally be regarded as higher risk borrowers, with an increased risk of default in payment of the obligations.

7. Value of Security Dependent on Property Value. There is no guarantee that the proceeds from the sale of the real property securing an investment in a Mortgage will be sufficient for the Company to recover its original investment and interest which would have been received absent any default. The Mortgage merely gives the Company the right to acquire or sell the property in the event of a default; the amount recovered by the Company at the time of the sale depends upon the price at which the property was sold and the amount of costs and other expenses which the Member must incur in connection with the foreclosure and sale. In the event of a default, the General Manager will undertake certain actions on behalf of the Company to collect the remaining balance, to sell the Mortgage, or to foreclose on the real property security of the Mortgage. There can be no guarantee that these efforts will be successful or cost effective. Although the General Manager will seek to avoid the risk of being under-collateralized by reviewing relevant appraisals, comparables, tax assessment records, and other evidence of property values prior to investing in any Mortgages, there can be no assurance that these sources will provide accurate information or that the value of the property will not decrease. Additionally, prospective Limited Members should be aware of the possibility of occurrences which could have an adverse effect on property values, such as rezoning, neighborhood changes, highway or airport relocations, discovery of hazardous materials, or failure to maintain the property.

8. Limitation on Returns to Limited Members. The Company has made a commitment to pay the Yield to Limited Members, as an adjustable, cumulative preferred rate of return on investment. Should the Company achieve spectacularly favorable results as a result of its investment strategies, the Limited Members will still share in the Company's profits only to the extent of the Yield, while the Member will receive the extraordinary profit. By the same token, if the Company performs poorly, the Limited Members will be entitled to be paid the Yield and any accrued and unpaid Yield before the Member receives any returns from the Fund at all. Therefore, the Limited Members must be prepared to accept some limitations on their potential upside returns in consideration of their being protected from some of the downside risks of the Company's investment results.

9. Investor Suitability; No Guarantee of Investment. Units should be purchased only by persons who, alone or with the assistance of their independent advisers, are capable of evaluating the merits and risks of an investment in Mortgages. An investor should have sufficient financial means so that he or she can afford an indefinite delay in the recovery of, and the possible loss of, all or a portion of his or her investment. Although the Fund will generally invest only in investments which it deems appropriate, the Fund does not guarantee any investment. The Fund's governing agreement provides only that the Yield payable to Limited Members is cumulative and will be paid before and in preference to any participation payable to the Member for a specified time period.

10. Fund Liability for Third Party Claims. As a result of investing in Mortgages, the Company may be subject to liability to various third parties. The ownership, operation or, possibly, holding of a mortgage or deed of trust against property on or near which hazardous substances have been discovered may subject the Company to substantial liabilities under laws and regulations pertaining to hazardous waste. In addition, as a result of certain actions taken with respect to a Mortgage, the Company could be subject to liability to a borrower, a bankruptcy trustee, or others under various theories of lender liability, to the extent the Company, as the [illegible] is deemed to be the lender.

11. Insurance and Casualty Loss. It is the policy of the Company to require fire and/or casualty insurance on property improvements which would be sufficient together with the value of the land to pay off all obligations including the Mortgages. There are certain disasters, however, for which no insurance is available or for which the insurance is too expensive. The Company has no control over the borrower's actions or the state of the property which might reduce available coverage, call for economically prohibitive premiums, or render the property uninsurable. In addition, if insurance coverage lapses because premiums are not paid, or a policy is canceled for other reasons, the Company may not be protected unless substitute or new insurance is in force and the Company may be required to pay premiums to maintain such insurance.

B. Risks In Limited Liability Company Structure.

1. Lack of Control. Limited Members will have no right to participate in the management of the Company or in the conduct of its business.

2. Discretion of General Manager. The General Manager has discretion to invest any amount of the assets of the Company in any Mortgages it deems appropriate at any time. The General Manager cannot guarantee the performance of the investments chosen. Accordingly, no person should invest in the Company unless he or she is willing to entrust all aspects of the management of the Company and its investments to the General Manager.

3. Member's Nonliability. Under the Operating Agreement, the Member is not liable to the Company or to the Limited Members for any claims or losses caused by acts performed by it or for any failure to act, except those directly attributable to the Member's own fraud, gross negligence, or willful disregard of duty, and under certain circumstances, the Member will be entitled to indemnification from the Company. It is the policy of the United States Securities and Exchange Commission that indemnification for securities law violations is against public policy and therefore unenforceable.

4. Reliance on the Member. The success of the Company is largely dependent upon the efforts of the Investment Committee, members of which are officers of the General Manager. Although they devote a significant amount of their time to the interests of the Company, they also engage in other business activities including certain activities which are similar to those of the Company. The death or disability of any of such persons, or the failure of such persons to remain as officers of N W L.L.C. would likely have a material adverse effect on the operations of the Company.

5. Lack of Registration. The Units offered pursuant to this Memorandum have not been registered under the Securities Act of 1933 or the securities laws of any state or will they be so registered by reason of specific exemptions under the provisions of such Act and laws which depend, in part, upon the investment intent of each investor. Each Limited Member will be required to represent that he or she is purchasing Units for his or her own account and not with a view toward resale or distribution. Neither the Company nor the General Manager has any plans nor has assumed any obligation to register these Units. Accordingly, the Units may not be transferred in the absence of an opinion of counsel to the Company that the transfer will not involve a violation of the registration requirements of the Securities Act. Ordinarily, this means that transfers will be restricted to instances of death, gift, or passage by operation of law. These restrictions on transfer are in addition to those found in the Operating Agreement.

6. Restriction on Liquidity, Transfers of Company Units and Redemptions. An investment in the Company involves substantial restrictions on liquidity and Units are not freely transferable. There is no market for Units of the Company, and no market is expected to develop. Consequently, Limited Members will be unable to redeem or liquidate their Units except by withdrawing from the Company in accordance with the Operating Agreement. Limited Members may be unable to liquidate their investment promptly in the event of an emergency or for any other reason. Although a Limited Member may attempt to increase his or her liquidity [illegible] a bank or other institution, Units may not be [illegible]

7. No Independent Counsel. No independent counsel has been retained to represent the interests of the Limited Members. The Operating Agreement has not been reviewed by any attorney on behalf of the Limited Members. Each investor is therefore urged to consult his or her own counsel as to the terms and provisions of the Operating Agreement and in all other documents related thereto.

8. Conflicts of Interest. The interests of the investors may be inconsistent in some respects with the interests of the General Manager. However, the fiduciary obligations of the General Manager requires that it exercise good faith and integrity in resolving any conflicts of interest. (See "Transactions with Management.")

C. Certain Tax Related Risks.

1. Tax Classification of the Limited Liability Company and the Limited Members. A limited liability company is not itself subject to federal income taxes; rather, its members take into account their share of the limited liability company's taxable income, losses, deductions, and credits in computing their federal income taxes. Accordingly, the tax consequences to Limited Members of an investment in the Company will depend upon the federal income tax classification of the Company as a "partnership," and not as an association taxable as a corporation. Several factors are determinative of this status, and the failure to meet the requirements of the Internal Revenue Code (the "Code") and regulations can result in taxability of the Company as a corporation. Treatment by the Internal Revenue Service ("IRS") of the Company as an association taxable as a corporation, rather than as a partnership could have a material adverse effect on the Limited Members.

Counsel for the Company is of the opinion that the Company is a "non-corporate entity" or "partnership" for federal income tax purposes under the applicable provisions of the Code and the Department of Treasury Regulations (the "Treasury Regulations") as they currently exist. However, counsel's opinion is not binding on, and could be challenged by, the IRS. The Company will not apply to the IRS for a Ruling as to its tax status as a limited liability company, and there is no assurance that a Ruling could be obtained even if requested.

As a practical matter, the participation in Company earnings by the Limited Members will be limited to the Yield. Accordingly, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as equity holders in the Company for federal income tax purposes. Instead, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequences of such a challenge, if successful, could arguably have an adverse effect on the classification of the Company as a partnership for federal income tax purposes, or alternatively on the tax treatment of the Limited Members as holders of debt instruments.

2. Possible Adverse Tax Consequences of Investment. The federal income tax consequences to the Interest Holders of an investment in the Company depend, in large part, on the particular strategies employed and on the length of time assets are owned, as well as the tax treatment of various items and activities under the Code, which changes frequently. While the General Manager will attempt to optimize the tax results of the Company's activities, its primary objective is to achieve an economic gain. The mix of ordinary and capital gains or losses may increase the tax liability to each individual Limited Members in excess of the dollar benefits gained from any appreciation of the Company's equity.

While the Company intends to seek advice of legal and accounting professionals in tax matters, there can be no assurance that the positions of the Company as to the tax consequences of its investment strategies will be accepted by the IRS.

3. Tax Liability May Exceed Cash Distribution. Interest Holders are required to report on their federal income tax returns their pro rata share of the Company income, whether or not such income is actually distributed by the Company. It is anticipated that most of the income of the Company will be taxable at ordinary income rates. There is no requirement that the General Manager make any cash distri[illegible]
by the Company, and Limited Mem[illegible]

4. Limitation on Deduction of Capital Losses. It is possible, in a taxable year, that a Limited Member may be allocated a pro rata share of Company capital losses as well as a pro rata share of Company ordinary income. In such case, because of the federal income tax limitations on the deductibility of capital losses, a Limited Member may realize taxable income from the Company, although from an economic standpoint the Company may have earned no profit or operated at a loss.

5. Limitation on Deduction of Passive Losses. It is possible that a Limited Member may have passive losses and portfolio income. Section 469 of the Code, introduced by the 1986 Tax Reform Act, may suspend such losses while the Limited Member must report all of his or her portfolio income. Due to passive loss limitations under Section 469 of the Code, the Limited Member may be required to report income when he or she actually suffers an economic loss.

6. Limitation on Deductibility of Investment Interest. Because of the limitations under the Code on the deductibility of interest incurred for investment purposes, it is possible that a Limited Member would not be able to deduct all investment interest (for example, if a Limited Member invested with borrowed funds) incurred during the taxable year.

7. Future Federal Income Tax Legislation or Changes in Regulations. The federal income tax laws are the subject of continuing scrutiny and proposals for amendment. In 1997, Congress passed the 1997 Taxpayer Relief Act, which made broad changes to the tax code. Any such new legislation may affect the tax treatment of income to Limited Members. An assessment of the affect of this or any tax law changes must be evaluated by the Limited Members and their tax advisors. Even without additional legislation, the IRS might issue new regulations, possibly with retroactive effect, which could result in a loss of "partnership" status for tax purposes.

IX. FEDERAL INCOME TAX CONSIDERATIONS

The following is intended to summarize certain general principles as to the tax consequences of an investment in the Company. These may vary with the identity and status of the investor as an individual, ERISA plan or other entity. **PROSPECTIVE LIMITED PARTNERS SHOULD NOT CONSIDER THE CONTENTS OF THIS MEMORANDUM AS LEGAL OR TAX ADVICE, BUT SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR INDIVIDUAL TAX CONSEQUENCES OF INVESTING IN THE FUND.**

A. Status As A Partnership.

The tax consequences to the Company and its Interest Holders depend upon the characterization of the Company for federal income tax purposes as either a partnership or an association taxable as a corporation. Although the Company has not requested a ruling from the IRS concerning its tax status, the Company has received an opinion of its counsel that, subject to certain conditions, it is more likely than not that the Company will qualify as a partnership for federal income tax purposes. However, an opinion of counsel will not prevent the IRS from challenging the partnership status of the Company if it determines the Company is more properly taxable as a corporation.

Prior to January 1, 1997, the Internal Revenue Service utilized a "corporate characteristics analysis" to determine whether a limited liability company would be treated as a partnership (not a corporation) for tax purposes. As of January 1, 1997, the IRS adopted certain regulations which allow unincorporated entities to choose whether to be taxed as partnerships or corporations. Under the Regulations, a "business entity" is any entity, for federal tax purposes, that is not a trust. Certain business entities are classified as corporations for federal tax purposes by the Regulations. Limited liability companies are not within that defined category. Under the Regulations, unincorporated domestic business entities formed after the effective date of the final regulations will automatically be classified as partnerships for federal tax purposes, unless the organization elects to be taxed as a corporation. Entities formed after the effective date of the Regulations

The Omnibus Budget Reconciliation Act of 1987 ("1987 Act") contains provisions that produce adverse tax consequences for publicly traded partnerships. Under the 1987 Act, publicly traded partnerships that were not in existence on December 17, 1987, will be taxed as corporations unless at least 90% of the gross income of such partnerships is "qualifying income" under Section 7704(d) of the Code. "Qualifying income" includes interest, dividends, and gains from the sale or other disposition of securities. The term "publicly traded partnership" is defined for purposes of these provisions as any partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. The General Manager believes that the Company is not a publicly traded partnership under the definition of Section 7704 of the Code because its Units are not traded or readily tradable on any securities market. Furthermore, even if it were determined that the Company is a publicly traded partnership, the General Manager believes that at least 90% of the gross income of the Company will be qualifying income under Section 7704(d) of the Code.

If, for any reason, the IRS instead treats the Company as a corporation for federal income tax purposes, then investors would be taxed as shareholders of a corporation. In such case, the income of the corporation would be taxed at the corporate level at corporate tax rates, and distributions from the Company to investors would be dividend distributions taxable as ordinary income to the extent of current or accumulated earnings and profits and nontaxable as a return of capital to the extent of the investor's basis in his or her Units. Amounts distributed in excess of an investor's basis in his or her Units are taxed as capital gains.

The participation in Company earnings by the Limited Members will be limited to the Yield. Accordingly, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as limited members in the Company for federal income tax purposes. Instead, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequences of such a challenge, if successful, could arguably have an adverse effect on the classification of the LLC as a partnership for federal income tax purposes. Furthermore, Yield payments to the Limited Members should not be subject to double taxation if such Limited Members were treated as holders of debt instruments because even if the Company were classified a corporation for federal income tax purposes, such payments should be treated as deductible interest payments by the Company (whether or not it is treated as a corporation) to the Limited Members.

Although the matter is not entirely free from doubt, notwithstanding the above discussion, in the opinion of counsel, the Limited Members should be treated as equity participants in the Company rather than holders of debt instruments.

B. <u>Tax Consequences To Member and Limited Member.</u>

If, as anticipated, the Company is taxable as a partnership it is not subject to federal income taxes on its income; rather, each Interest Holder is required to report on his or her federal income tax return his or her distributive share of all items of income, gain, loss, deduction and credit of the Company for the Interest Holder's taxable year within which the Company's taxable year ends, regardless of whether the Company makes any actual distribution to the Interest Holders during that year.

As indicated above, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as limited partners for federal income tax purposes. Therefore, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequence of such a challenge, if successful, could arguably have an adverse effect on the tax treatment of the Limited Members. From the perspective of the Limited Members, the potential tax treatment as holders of debt instruments may or may not be adverse as compared to the anticipated tax treatment as an equity limited partner. Interest income received as a holder of a debt instrument would be as treated as portfolio income and as investment income for purposes of the investment interest expense limitation. Similarly, such interest income and all deductions directly connected with such income would be excluded from UBTI.

as part of the loan terms. For both cash and accrual basis taxpayers, payments received in advance for prepaid interest are income in the year received, provided no restriction has been placed upon the use of those funds. Therefore, even though the accrual method applies overall, prepaid interest will be taxable in the year of receipt.

An Interest Holder may deduct his or her distributive share of the Company's losses (ordinary or capital) only to the extent of his or her adjusted basis in his or her Units of the Company at the end of the Company's taxable year and even then, only to the extent the Interest Holder is "at risk" at the close of the taxable year.

Generally, a Limited Member's initial adjusted basis in his or her Units is equal to his or her cash capital contributions to the Company. An Interest Holder's basis will also be increased by his or her total distributive share of Company income, gain and certain partnership liabilities, and reduced by: (1) his or her total distributive share of Company losses; (2) total Company distributions made to him or her, (3) decreases in the share of Company liabilities previously included in his or her basis; and (4) his or her distributive share of certain other expenditures, i.e., nondeductible company expenditures not properly chargeable to his or her capital account.

A Limited Member will be considered "at risk" to the extent of: (1) that Limited Member's actual contributions to the Company, plus (2) any other amount which he or she has actually risked in the Company (i.e., for which he or she is personally liable or has pledged as security other property not related to this activity), plus (3) the undistributed Company income allocable to a Member, less (4) losses deducted in prior years and Company distributions.

The federal income tax consequences to the Interest Holder of an investment in the Company will depend largely upon the investment activity of the Company and on the length of time Mortgages are owned by the Company.

If the Company recognizes any gains or losses which are ordinary gains or losses, each Interest Holder's allocable share of ordinary gains will be taxed as ordinary income and his or her share of ordinary losses will reduce other income of the Interest Holder to the extent of his or her basis subject to the at-risk and other limitations discussed in this section.

Gains and losses from most transactions in purchasing and selling Mortgages, other than those entered into by dealers in their inventory account, are taxed as capital gains and losses, a portion of which may be taxed as long-term capital gain or loss and a portion as short-term capital gain or loss, depending on the facts involved in the transaction. The Company does not consider itself a dealer in Mortgages and a significant portion of the gain or loss recognized by the Company should be capital gain or loss. Each Interest Holder's allocable share of (a) net long-term capital gain or loss and (b) net short-term capital gain or loss will pass through to the Interest Holder separately. Thus, the tax consequences of capital gains and losses to a Limited Member will depend upon whether the Limited Member has capital gains and losses other than those derived from his or her distributive share of Company capital gains and losses.

In general, an Interest Holder's net short-term capital gain (i.e., the excess of short-term capital gains from all sources over net long-term capital loss from all sources) is taxed at ordinary income tax rates. An Interest Holder's net long-term capital gain (i.e., the excess of net long-term capital gain from all sources over net short term capital loss from all sources) will be taxed at long-term capital gains rates. If an individual Limited Member has a net capital loss (i.e., total long-term or short-term loss from all sources exceeds total long-term and short-term capital gain from all sources), he or she may deduct those losses against other income up to a maximum of the lesser of $3,000 per year or his or her adjusted gross income. Any excess over the $3,000 limitation may be carried over to offset capital gains or ordinary income subject to the $3,000 limitation in future years. If the Limited Member is a corporation, the net capital loss can only be used to offset capital gains, with any excess carried back first to the three prior years and then carried forward to the five subsequent years.

C. Possible Application Of Section 469 Of The Code.

The General Manager believes that it is more likely than not that income or loss reported by the Company will be considered either passive or portfolio income or loss under the provisions of the Code. Therefore, potential investors should consider the following discussion of Section 469 of the Code.

To the extent that the income or losses of the Company are determined to be income or loss from a passive activity, noncorporate Interest Holders (and certain corporations which are personal service corporations or are closely held) should consider the impact of the limitation on the deductibility of losses and credits from passive activities under Section 469 of the Code as added by the 1986 Tax Reform Act. Under Section 469, losses and credits from passive activities are allowable only against income from similar passive activities. Portfolio income is not considered passive under Section 469 and may not be offset by passive losses. Portfolio income generally includes interest, dividends, annuities, royalties and capital gains from property held for investment.

In general, a "passive activity" is any rental activity or any activity which involves the conduct of a trade or business in which the taxpayer does not materially participate. For purposes of Section 469 of the Code, a taxpayer is treated as materially participating in an activity if the taxpayer satisfies at least one of the seven safe harbor rules set forth in the Treasury Regulations. Generally speaking, these rules emphasize the quantity of taxpayer participation (the number of hours worked) rather than the qualitative nature of the services rendered.

Except as provided in the Treasury Regulations, a Limited Member is not treated as materially participating in an activity conducted by a limited liability company. Consequently, a Limited Member that is an individual, estate, trust, or personal service corporation as a general rule may deduct the net losses from a limited liability company only against passive income and not against that limited member's active business income or portfolio income. Similarly, a limited member that is a closely held C corporation may not deduct the net losses of a limited liability company against its portfolio income, but may offset such losses against its active business income in addition to any passive income. However, any disallowed passive losses may be carried forward and deducted against future passive income earned by such a limited member subject to the passive activity limitations, and, in the case of a closely held C corporation, against any future active business income. Any suspended passive losses may also be offset against passive and nonpassive income when the limited member disposes of his or her entire interest in the passive activity to an unrelated person in a transaction in which gain or loss is recognized.

The Treasury Regulations contain several exceptions to the general rule that a Limited Member's interest in the income and losses of a limited liability company is passive income and losses. However, the General Manager believes that it is more likely than not that these exceptions will not apply, and that the income received by the Limited Members will be either passive or portfolio income or loss under the provisions of the Code. The passive or non-passive nature of trade or business income is determined at the individual level and is not considered to be a partnership item.

The above analysis is based upon regulations, including temporary regulations, issued by the IRS. Much detail has been omitted from this analysis and further interpretation of these provisions will be provided in additional regulations and administrative and judicial proceedings. Potential investors are advised to consult their own tax advisors to determine the consequences of Section 469 on their personal tax liability.

D. Deductibility Of Interest And Other Partnership Expenses.

The deductibility of interest expense incurred by a noncorporate Limited Member who borrows to finance his or her investment in the Company and the deductibility of a noncorporate Limited Member's distributive share of interest expense (if any) paid by the Company may be limited. The Company does not intend to incur any interest expense, so the analysis below will apply only to interest paid by Limited Members who borrow money to invest in the Company. In order to determine whether such interest is deductible, it must be traced to an expenditure incurred to acquire Units in the Company.

Under the 1986 Tax Reform Act, a noncorporate taxpayer's deduction for "investment interest" is limited to the amount of the taxpayer's "net investment income." "Investment interest" is defined as any interest expense which is paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. "Net investment income," which is the cap on the deduction of "investment interest," is defined as the excess of "investment income" over "investment expenses." "Investment income" is the sum of interest, dividends, annuities, royalties and net capital gains on the disposition of property held for investment, but only to the extent that they are not derived from a trade or business. "Investment expenses" are any expenses other than interest for which a deduction is allowable and is directly connected with the production of investment income. Interest expense that is disallowed because of the investment interest limitation continues to be allowed as a carryover to later years and is deducted to the extent of the limitation in any carryover year.

The 1986 Tax Reform Act provides that interest expense allocable to passive activities is treated as a passive activity expense and not treated as investment interest. Thus, deductions for such interest expense are subject to limitation under the passive loss rules and not under the investment interest limitation. Similarly, income and loss from passive activities generally are not treated as investment income or loss in calculating the amount of the investment interest limitation.

Although the interest deduction limitations are in part summarized herein, each investor should consult his or her tax advisor regarding the potential limitations on the deductibility of interest expense.

Under the Tax Reform Act of 1986, certain miscellaneous itemized deductions (including investment expense) are deductible by taxpayers who are individuals only if the aggregate amount of the deductions exceed two percent (2%) of the individual's adjusted gross income.

If the activities of the Company are determined not to constitute the conduct of a trade or business, the deductibility of a Interest Holder's share of the Company's noninterest investment expenses, if any, would be subject to the two percent (2%) floor. It is possible that the Treasury Department will adopt regulations which will cause this limitation to apply to the Limited Members even if the Company, but not the Limited Members, is engaged in a trade or business.

Potential investors are advised to consult their own tax advisors in this Regard.

E. **Alternative Minimum Tax.**

In addition to the regular income tax, an alternative minimum tax which ranges from 26% to 28% for individuals and 20% for corporations is imposed on the excess of alternative minimum taxable income over an exemption amount. Alternative minimum taxable income is generally equal to taxable income determined with certain adjustments and increased by the amount of certain tax preferences. The alternative minimum tax is not imposed on the Company. The Company does not anticipate that any tax preference items will flow through to Limited Members. However, to the extent that this should occur, a Limited Member must include his or her allocable share of the Company's items of tax preference with his or her own tax preference items in order to compute any alternative minimum taxable income.

Because the effect of the alternative minimum tax varies depending upon each Interest Holder's tax and financial position, each prospective investor is advised to consult with his or her own tax advisor concerning the effect of the alternative minimum tax on such investment.

F. Tax Allocations in General.

The Limited Liability Company provides that each Member and Limited Member will be given an original capital account equal to the cash contributed by the Member and Limited Member to the Company.

The Operating Agreement further provides that each item of income, gain, loss, deduction and credit of the Company will be allocated among the Limited Members (after allocation of the one percent (1%) participation of the General Manager) in an amount not to exceed the Yield. Each Interest Holder's capital account is appropriately increased or reduced by the Interest Holder's distributive share of Company income, gain, loss, deduction and, in certain instances, credit.

The General Manager is given flexibility so that any changes in the ownership of Interest Units during the term of the Company, such as the entry of new Interest Holders, the withdrawal (total or partial) of Interest Holders' and increases in Interest Holder's capital accounts, as well as other relevant matters, can be dealt with as fairly as possible within the limits prescribed by the Code and IRS Rulings.

Although the General Manager believe the allocations in the Operating Agreement which are based on economic considerations should be recognized, there can be no assurance that the IRS will accept these allocations. The IRS may contend that such allocations do not meet the substantial economic effect requirement, in which case the IRS may attempt to allocate the Company profit and loss in some other manner based on its determination of the Interest Holders' interests in the Company.

Generally, any distribution to a Interest Holder on withdrawal, liquidation or otherwise is based entirely upon the Interest Holder's capital account or some component thereof.

G. Tax Consequences of Contributions, Distributions, Partial and Total Withdrawal From the Company, and Sales of Units.

Generally, the contribution of cash by an Interest Holder to a limited liability company is not a taxable event.

Generally, no gain or loss will be recognized by a Interest Holder on distributions of property (such as Mortgages) from the Company. However, gain will be recognized by each Limited Member on Company distributions of money to the extent that the amount of money distributed (which includes, for these purposes, a reduction in the Interest Holder's share of Company liabilities previously included in the Interest Holder's basis) exceeds the Interest Holder's adjusted basis for his limited liability company interest immediately before the distribution. This gain has the same character as would gain realized by a partner upon a sale or exchange of a partnership interest; that is, as capital gain, except to the extent that the gain is attributable to (1) inventory held by the Company which inventory has a market value which exceeds (a) 120% of the Company's adjusted basis in the property, and (b) 10% of the market value of all limited liability company property other than money ("substantially appreciated inventory"), or (2) unrealized receivables. If a distribution from the Company to an Interest Holder is attributable to either inventory (as described above) or unrealized receivables, the tax impact will be governed by the complex provisions of Section 751(b) of the Code, but generally may result in ordinary income recognition to the Interest Holder or the Company. Subject to a change by Congress, Company Units held for more than 18 months will generate long-term capital gain or loss on disposition.

If the distribution is not in liquidation of the Company or in liquidation of a Interest Holder's interest, the basis to the Interest Holder of property distributed will, generally, be the lesser of (a) the Company's basis in the asset, or (b) the Interest Holder's basis in his Company Units. If the property is distributed in liquidation, the Interest Holder's basis in the distributed property will be the Interest Holder's adjusted basis in his or her Company Units. The property distributed will, generally, retain in the hands of the distributee Interest Holder the same character as it had to the Company. Furthermore, if the distributed property constituted inventory to the Company that character for five years to the distributee Interest Holder

If a Limited Member sells his or her Units in the Company, any gain will be treated as capital gain unless the gain is attributable to unrealized receivables or inventory, in which event the proceeds are taxable as ordinary income. If only a portion of the gain is attributable to inventory or unrealized receivables, then only that portion of the gain would be taxed as ordinary income.

When a Limited Member disposes of his or her entire interest in the Company in a fully taxable transaction, any losses previously suspended by operation of Section 469 of the Code (i.e., passive activity losses) may be allowed. If any gain from the sale of the Units is considered passive, it will be offset first by any suspended passive losses. Any remaining suspended losses may be applied against portfolio and ordinary income. If the Limited Member recognizes a loss on the disposition, the limitations on the deductibility of capital losses apply. In the case of the disposition due to death of the Limited Member, suspended losses are allowed to the extent the losses exceed the amount by which the basis of the decedent's interest in the Company was increased at death under Section 1014 of the Code.

The sale or exchange within a 12-month period of 50% or more of the total interest in Company capital and profits may result in a technical termination of the Company for federal income tax purposes only. Recently adopted regulations under Code Section 708 provide that such a technical termination results in a deemed contribution by the old partnership of all assets and liabilities into a newly formed partnership in exchange for new partnership interests. The partnership interests of the new partnership are then deemed distributed in liquidation of the old partnership to the ongoing members. Such a termination does not close the Company's taxable year.

A closing of the Company's taxable year will occur with respect to an Interest Holder who terminates his or her entire Interest. As a result, all income attributable to long-term appreciation of a Interest Holder's Interest over several years could be taxable to the Interest Holder in the taxable year of such termination.

H. Section 754 Election.

The General Manager may file, on behalf of the Company, an election under Section 754 of the Code to adjust the basis of Company property. In such event, the basis of Company property would be adjusted to reflect certain distributions to an Interest Holder upon the liquidation or sale of Units in the Company or on the death of an Interest Holder.

In general, under this election, were a distribution to an Interest Holder to result in recognized gain to the distributes Interest Holder, the Company would increase the basis of its remaining, property by the amount of gain recognized.

Conversely, if an Interest Holder were to receive a distribution that terminated his entire interest at a loss, the Company would decrease the basis of its remaining property by the amount of the loss recognized to the distributee Interest Holder.

Similar rules would affect the basis of Company assets with respect to a transferee Interest Holder if the transferor were to realize a gain or loss on the transfer of his interest.

The General Manager, at present, does not intend to make the Section 754 election. If, however, the election is made, it cannot be revoked without the permission of the Commissioner of the Internal Revenue Service.

I. State And Local Taxes.

Investing in the Company may subject the Interest Holder to certain state and local income or excise taxes in states in which the Company may be deemed to be doing business or own property.

J. Unrelated Business Taxable Income.

Certain Interest Holders such as ERISA plans, foundations and other non-profit organizations are generally exempt from taxation except to the extent that their "unrelated business taxable income" ("UBTI") exceeds $1,000 during any fiscal year. UBTI is generally defined as gross income derived by a tax-exempt organization from a trade or business "not substantially related" to the exercise of the function which underlies the tax exemption of the organization, or from "debt financed" property. Since interest, dividends and capital gains, the creation of which is the objective of the Company, are excluded from UBTI, the General Manager expect that there will be little or no UBTI to tax exempt Members. However, a tax exempt organization considering an investment in the Company should consult carefully with its own tax advisor to determine whether the income from this investment will be treated as unrelated business taxable income.

K. Tax Returns.

The Company will furnish to each Interest Holder as soon as possible after the close of the Company's taxable year, information required for filing federal and state income tax returns. The Company itself will file an annual U.S. Partnership Return of Income and comply with all state and local reporting requirements.

The Tax Reform Act of 1984, as amended by the 1997 Tax Act, also requires that each person who transfers an interest after December 31, 1984, in a partnership possessing "unrealized receivables" or "inventory items" (within the meaning Section 751 of the Code) report such transfer to the partnership. If so notified, the partnership must report the identity of the transferor and transferee to the IRS, together with other information described in regulations to be issued by the Treasury Department. Failure by a partner to report a transfer covered by this provision may result in a penalty of $50 per occurrence.

The Company's tax returns are subject to tax audit by the IRS or state or local authorities, and the items set forth on such returns are subject to adjustment. An adjustment in the items reported on the Company's return may result in an adjustment in the tax liability of the Interest Holders.

Detailed rules relating to notice and participation in administrative and judicial proceedings concerning partnership items are contained in the tax laws. Because of these rules, it is possible that some Limited Members will be bound by action taken at the Company level by the "Tax Matters Member" without having received notice from the IRS. The tax law also requires that Interest Holders treat Company items on their individual returns consistent with treatment on the Company return or disclose the different treatment. Penalties are provided for failure to comply with these requirements.

The Company will not register currently as a tax shelter with the IRS because it is not currently required to do so by the Code and regulations. If at any time during the five year period after Units are first offered for sale, the Company becomes a "tax shelter" within the meaning of the tax shelter registration provisions, the Company will be required to register with the IRS and maintain a list of its investors for IRS inspection.

L. Note Of Caution.

THE FOREGOING DISCUSSION IS BASED UPON EXISTING INTERPRETATIONS OF LAW AND REGULATIONS WHICH ARE SUBJECT TO CHANGE. PROSPECTIVE INVESTORS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN THE COMPANY, IN LIGHT OF EXISTING AND PROPOSED TAX LEGISLATION.

X. SUMMARY OF THE OPERATING AGREEMENT

A prospective Limited Member should read ... 'Agreement").

A. Organization And Management.

The Company was formed on May 11, 1997, pursuant to the Washington Limited Liability Company Act. The Member of the Company is N W L.L.C., a Washington limited liability company.

The Member has full and complete authority with respect to the management and control of the business operations and all other aspects of the Company. The Limited Members have no participation in management and do not vote on any matters other than material amendments to the Agreement.

The General Manager and its officers and directors are permitted to engage in any other business venture, whether or not such business is similar to the business of the Company, and neither the Company nor any other Interest Holder will have any rights in, or to, such ventures or the income or profits derived therefrom.

B. Participation by the Limited Members and Member in Company Earnings.

One percent (1%) of the Company's Cash Available for Distribution shall be paid to the Member on a quarterly basis. The Limited Members will be entitled to receive, as their share of Company Cash Available for Distribution, the lesser of (1) 99% of the Company's Cash Available for Distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield"), compounded and payable quarterly, calculated as a percentage of each Limited Member's capital account. The Yield is defined as an annual rate which is initially 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15-year GNMA securities (the "GNMA Rate") as published from time to time in *The Wall Street Journal*. It is adjustable from quarter to quarter on 90 days advance written notice by the Fund. (See "The Fund and Its Management-The Yield.")

After payment to the Members and the Limited Members of their respective percentages of Cash Available for Distribution as described above, including amounts for redemption of Units for which timely notice of redemption was given, the Members will be entitled to receive, as their residual participation, all Company Cash Available for Distribution to the extent it exceed the amounts to which the Limited Members are entitled, and to the extent payment thereof does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization required by the Agreement. The Member will be entitled to receive payments of its participation on a quarterly basis. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

C. Limited Liability.

A Limited Member, as such, is not personally liable for any of the debts or obligations of the Company. No Limited Member will be subject to assessment or will otherwise be required to make any cash contribution to the Company beyond that indicated in his or her Subscription Agreement. However, a Limited Member who has withdrawn all or part of his or her capital may be liable to the Company for any sum, not in excess of such withdrawal, necessary to discharge Company liabilities to creditors whose claims arose before the effective withdrawal date.

D. Fiscal Year.

The Company's fiscal year ends on December 31.

E. Capital Contributions.

Subject to the discretion of the General Manager to make exceptions, the minimum initial capital contribution of a Limited Member is $25,000. Additional capital contributions may be made by Limited Members with the consent of the General Manager. The minimum amount required for additional capital contributions will be at the discretion of the General Manager. Capital contributions from Interest Holders shall be by electronic funds transfer, unless otherwise authorized by the General Manager.

F. Capital Accounts.

Each Interest Holder will have a capital account established on the books of the Company which will be credited with his or her capital contributions. A Company percentage will be determined for each Limited Member for each fiscal period by dividing the number of Units standing in his or her name by the total number of Units outstanding as of the beginning of such fiscal period. Share balances and Company percentages will be adjusted by the General Manager to take into account additions of capital or the admission, withdrawal or termination of Interest Holders during a fiscal period.

G. Valuation Of Investments.

The General Manager will be responsible for determining the value of each Mortgage acquired or sold by the Company. For purposes of calculating the Minimum Portfolio Capitalization, the value shall be the remaining principal balance due on the valuation date pursuant to the promissory note or other obligation underlying such Mortgage. The General Manager may, subject to the requirement of maintaining the Minimum Portfolio Capitalization, cause the Company from time to time to buy or sell mortgages at rates greater or less than the value as calculated above.

H. Withdrawal Of Capital.

Upon 60 days' prior written notice, at the end of any calendar quarter, each Limited Member has the right to withdraw the amount in his capital account in whole or in part, subject to provision for Fund liabilities and reserves for contingencies. *The General Manager may require a Limited Member to withdraw all or part of his capital account on ten days' notice as of any month-end.*

The Agreement provides that the Company must distribute the amount to be withdrawn as soon as practicable following the date as of which the withdrawal is to be effective, provided that the General Manager reserve the right to delay payments in extraordinary circumstances.

I. Expenses.

The Member will pay on behalf of the Company, in consideration of its participation in Company earnings and profits, all expenses relating to office space, equipment, supplies, telephone, salaries of in-house personnel, servicing, escrow and recording of transactions, the purchase, sale, trade, custody, transfer, or insurance of Company assets and other services which are part of the day-to-day administration of the Company, including expenses for third-party professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses; will also be expenses paid by the Members.

J. Transferability Of Fund Units.

Units are not transferable without the consent of the General Manager, subject to the specific requirements of the Agreement. Resale of such Units is also restricted under federal and state securities laws. These restrictions are described in the Subscription Agreement. However, a Limited Member may make a total or partial withdrawal subject to the terms of the Agreement.

K. Term Of Fund, Dissolution And Liquidation.

The events that would cause the dissolution of the Company are (1) the expiration of the term of the Company on December 31, 2025, or (2) the voluntary withdrawal, death, dissolution, bankruptcy, incapacity, or required withdrawal of a Member unless the remaining Member, if any, elect to continue the Company. In the event there is no remaining Member, the Company would be dissolved.

Upon dissolution of the Company, its assets would (as soon as practicable after an event causing early dissolution or at the end of the term of the Company) be liquidated and, after payment of the Company's debts and expenses, the Company would distribute to each Interest Holder, his or her proportionate share of the net assets of the Company. Distributions would be made to the Interest Holders as soon as practicable after the date of dissolution and such distributions would be either in cash or in kind in the sole discretion of the General Manager.

L. Exculpation.

Neither the General Manager nor any Member will be liable to any other Interest Holder for any claims or losses other than those directly attributable to the General Manager's or Member's own fraud, gross negligence, or willful disregard of its duties. Moreover, neither the General Manager nor any Member will be liable for any claims or losses due to circumstances beyond its control such as the bankruptcy or insolvency of a bank or debtor on a Mortgage or due to the negligence or dishonesty of an employee, broker or other agent of the Company.

M. Indemnification Of Member.

The Agreement also provides that the Fund is to indemnify the General Manager or a Member for any loss or expense incurred by it by reason of being General Manager or Member, provided such loss or expense resulted from an honest mistake of judgment or from action or inaction taken in good faith and reasonably believed to be in, or not opposed to, the best interests of the Company.

N. Amendments To Agreement.

The Agreement may be modified or amended at any time by the consent of the Member and of a majority of the Limited Members. No such amendment, however, may discriminate among the Limited Members. Further, the Member is empowered to make amendments to the Agreement in any manner that does not adversely affect the rights of any Limited Member.

O. Reports To Interest Holders.

As soon as possible following the end of each fiscal year, the Company will mail to each Interest Holder an audited financial report prepared by the Company's accountants. It is anticipated that this audit will be performed by BDO Seidman. The report will set forth the Company's assets and liabilities and realized and unrealized net capital gains or losses of the year. The Company will provide each Interest Holder with a quarterly report of the Interest Holder's closing Unit balance, capital account and the manner of its calculation, and the Interest Holder's opening Unit balance, capital account and Company percentage established for the succeeding quarter.

THE FOREGOING SUMMARY OF THE LLC AGREEMENT DOES NOT PURPORT TO BE COMPLETE AND EACH PROSPECTIVE LIMITED MEMBER SHOULD READ THE LLC OPERATING AGREEMENT IN ITS ENTIRETY.

XI. LEGAL MATTERS

Certain legal matters in connection with the Units offered hereby have been passed upon by SLOAN BOBRICK & OLDFIELD, INC. P.S., counsel for the Company, the Member and certain of its affiliates. That firm has issued an opinion on the treatment of the Company as a partnership for federal income tax purposes. SLOAN BOBRICK & OLDFIELD, INC. P.S. has not been retained to represent the interests of Limited Members. A copy of the opinion letter is available for inspection from the Members upon request.

NW COMMERCIAL LOAN FUND LLC
FINANCIAL STATEMENT (UNAUDITED)
MAY 31, 2001

ASSETS	
Cash	**$1,051.00**
Loans	**$4,866,897.00**
Prepaids and other assets	**-0-**
TOTAL ASSETS	**$4,867,948.00**
LIABILITIES	
Accounts Payable and Accrued Expenses	**-0-**
Line of Credit Borrowings	**$500,000.00**
TOTAL LIABILITIES	**$500,000.00**
EQUITY	**$167,480.04**
Capital Limited Members	**$4,535,428.04**
Retained Earnings	
TOTAL EQUITIES	
TOTAL LIABILITY & EQUITY	**$4,867,948.00**

EXHIBIT C

NW COMMERCIAL LOAN FUND

LOANS OUTSTANDING

Loan Number	Principal Balance	Collaterialized By
190000190	$143,120.39	Deed of Trust-Commercial R/E
190000208	$1,588,171.24	Deed of Trust-Commercial R/E
190001008	$2,292,323.53	Deed of Trust-Commercial R/E
190001388	$140,575.03	2nd Deed of Trust-Shopping Cntr
190001537	$351,353.41	Deed of Trust-Commercial R/E
190001546	$351,353.41	Deed of Trust-Commercial R/E
TOTALS:	$4,866,897.01	

EXHIBIT D

eline of payoff expected	Amount	Reference	Timeline of Fund Payoff	% paydown of investment
	$ 200,000.00	1537	May	
	$ 138,000.00	190	June	4.90%
	$ 250,000.00	1545	July	3.30%
ber	$ 750,000.00	208	Sept	6.00%
mber	$ 300,000.00	208	October	18.00%
mber	$ 494,000.00	208	November	7.26%
ary	$ 1,250,000.00	1008	December	12.00%
	$ 400,000.00	1008	January	30.25%
	$ 579,095.00	1008	Feb	9.70%
				14.00%
	$ 4,361,095.00			
				105.40%

EXHIBIT E

LOAN HOLDINGS LLC
7610 40th Street West
University Place WA 98466

Dear Member:

Effective as of June 6, 2001, Loan Holdings LLC has been appointed manager of the NW Commercial Loan Fund. Dr. James Reid and I (Kevin Byrne) are the two sole members of that limited liability company. As such, we are committed to liquidating the Fund in the most effective way possible in as short a time period as possible. The Fund has retained Lola Duncan and Shirley Matz (both former NW LLC senior staff) to work part time with us to assist in the liquidation process.

Enclosed find a check in the amount of $22,048.64. The Fund was paid on one of its loan which closed today. The enclosed monies represent your percentage distribution of those proceeds. Future distributions will be made as expeditiously as possible. All parties will receive a prorated share of the income as it is received. If two loans close in close proximity of each other, those funds will be combined for distribution purposes. If a sizeable payoff occurs near the end of the year, we will personally contact the preferred members askng whether they wish to hold disbursement until the new year for tax purposes.

Dr. Reed and I have examined the structure of the liquidation plan and agree with it in principle. Please remember that the liquidation time frame is approximate and the actual liquidation may be shorter or longer. Our primary interest is the return of investment dollar over the exact timing of the return.

You may reach us at:

Loan Holdings LLC
7610 40th Street West, Suite 100
University Place WA 98466
Phone: (253) 565-3932
Fax: (253) 565-3973

Neither Loan Holdings or the Fund has email at this time. Because the Fund does not have large amounts of assets to manage, we have decided not to place personnel in the office at all times. If leave a message and we will get back to you as soon as possible.

Several clean-up issues remain. First, the Fund calls out for an audited financial statement to be done annually. In the past, NW paid for that audit as part of the general operation of the company. We recommend that an audit not be done for 2000 or 2001. The cost will exceed $25,000 per year and would come from funds otherwise available to distribute to preferred members.

EXHIBIT F

An amendment of this type requires a majority vote of the preferred members. We have enclosed a voting form for your convenience. If the measure passes, we will send a quarterly unaudited statement. If the majority does not approve, we will obtain a bid and reserve enough cash out of the first loan payoff to pay for the audit.

The Fund is also set up to change the interest rate as the market changes. We will be following the market and setting a rate every quarter. The rate will change to 8% effective October 1, 2001.

Sincerely,

Kevin M Byrne
Member

James Reid
Member

VOTE

_____ I agree that it is not necessary to solicit an audit for the years 2000 and 2001. An unaudited financial statement will be provided quarterly.

_____ I request an annual audited financial statement and understand the NW Commercial loan Fund will pay for the said audit from loan pay off proceeds.

Please return to:

Loan Holdings LLC
7610 40th Street West, Suite 100
University Place, WA 98466

LOAN HOLDINGS, LLC

7610 40TH STREET WEST
UNIVERSITY PLACE WA 98466
kbyrneloanholdings@hotmail.com

(253) 565-3932
FAX (253) 565-3973

July 16, 2001

Gary Grendahl
165 Cedar Lane NW
Gig Harbor WA 98335

Re: Financial Statements

Please find enclosed the quarterly financial statement on the NW Commercial Loan Fund. Your individual statements were mailed to you the week of July 2. If you did not receive one, or if you have any questions regarding the enclosed, please feel free to contact me at (253) 565-3932 or email me at the address above.

The line item for loans outstanding in the May 2001 financial statement included late charges shown in some of the outstanding balances. The June 2001 statement has removed those charges as they are difficult to collect in many cases. Those balances now reflect only principal and interest outstanding. The June statement also reflects fees due Loan Holdings, LLC. Those fees will continue to increase as they are not being collected until the Fund's limited members are paid.

We are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you.

Finally, we have received many of the votes necessary to proceed with the quarterly unaudited statements. The majority of preferred members have voted in favor of the unaudited statement. If you have not returned your voting form, I would respectfully request that you do so now. For those of you who have not voted, I have enclosed another form and return envelope.

Sincerely,

LOAN HOLDINGS, LLC

Kevin M. Byrne
Managing Member

KMB/ssm
Enc.

EXHIBIT G

MITCHELL

Loan Holdings LLC
7610 40th Street West
University Place WA 98466

Kevin M Byrne
Managing Member
(253) 565-3932

July 19-2001

Gary Grendahl
165 Cedar Lane NW
Gig Harbor WA 98335

Dear Gary;

Thank you for the time yesterday. The meeting lasted much longer than I think either of us thought, but I think it was productive. I understand your concerns much more and I was surprised to learn about the actions of Mike and Tom Price and Bob Coleman.

I understand that we are meeting on Friday to go over the loan files and some of the computer entries. I will be happy to allow review of the loans with the assignments as well as the bookkeeping entries as long as individual investment balances are not open for review. You may of course examine your own account.

I understand that Mike Price et al are pushing to cast the fund in a bad light. Apparently it is not only occurring with this fund, but with NW preferred members as well. Price et al claims that the fund is in trouble is in reality overstated and/or Price et al not making capital calls as agreed when the investment was transferred to them. They are also standing in the way of completing the project and/or refinancing. It is their bad actions, which are putting the Fund at risk. I do not understand what Mike Price et al expects to gain from making false and/or misleading statements, but they seem to be occurring frequently. I can, for example, document that Bob Coleman's statements that he did not approve the transfer of the assets to NW Commercial Loan Fund, and that he did not know those were in the fund, are false.

NW was the fund manager. NW had three NW employees on the investment committee. I can show you proof that Mr. Coleman did the entries for the fund on these assets. I did not even have the software on my computer to do the entries for the transfer and had no passwords even if I could have found the software. Only Mr. Coleman and his daughter, or others at their direction, were ever authorized or capable of making the entries.

I hope that we can work together to resolve the issues of the loans and the Fund to allow everyone to be paid.

Thank you for your time.

Sincerely;

Kevin M Byrne
Managing Member

CC: File

EXHIBIT 14

William R. Stevens, Manager
NW Commercial Loan Fund LLC
4540 S Adams St
Tacoma, WA 98409

January 11, 2002

Ladies and Gentlemen:

I am writing to all limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current. The member of the Fund is NW LLC. NW LLC has discontinued operations and is unable to remedy the borrower problems and has no capacity to manage or protect the Fund assets. The limited members asked legal counsel if they acted on their own behalf to protect their own investment would this be a breach of fiduciary responsibilities to other limited members. The opinion was that it would not be a breach of fiduciary responsibility to try to protect everyone's investment in the NW Commercial Loan Fund.

Consideration was given to three alternatives: 1. Wait for the Commercial Loan Fund borrowers to sell or refinance collateral. 2. Seek a remedy that could be receivership, bankruptcy or litigation. 3. Ask that the operating agreement be amended to transfer authority to control NW Commercial Loan Fund LLC from the member (NW LLC) to a majority of limited members.

The decision was to obtain a transfer of authority to a majority of limited members. The majority of limited members consented to a member (NW LLC) resolution, dated November 7, 2001, which ratified, confirmed and approved amendments to the Operating Agreement. A copy of CONSENT OF LIMITED MEMBERS OF NW COMMERCIAL LOAN FUND, LLC IN LIEU OF SPECIAL MEETING OF LIMITED MEMBERS is enclosed.

Since the borrowers did not have the capacity to protect the collateral or make payment to the NW Commercial Loan Fund LLC deeds in lieu of foreclosure were accepted. On November 30, 2001, the deeds in lieu of foreclosure were recorded.

Since November 30, 2001, William R. Stevens has been the manager of the Fund. Some of the limited members are trying to stabilize the collateral. The task to stabilize the collateral is very difficult and complex. The collateral is subject to debt, liens and property taxes in the approximate amount of $8,750,000. A construction loan in the amount of $5,750,000 matured on November 30, 2001. The past due interest was paid and the loan was converted to a two year maturity. The remaining debt involves four lenders. The loans are in default. Two loans are in foreclosure and the other two lenders are expected to start default actions. We are asking these four lenders for concessions and modifications.

EXHIBIT I

We have made preliminary inquiry into development issues such as water, septic, easements, restrictions, regulatory issues and site plan approvals.

All of the collateral is listed for sale and is being marketed.

Some of the limited members are funding immediate cash requirements. There will be additional cash requirements and or signature responsibility to protect the collateral. Our initial estimate of cash requirements for the next nine months is $300,000 to $500,000.

The distribution that was made earlier this year is a return of capital. For the tax year 2001, the limited members have no reportable income or loss. Please prepare your 2001 tax return with no income or deduction arising from NW Commercial Loan Fund LLC 2001 operations.

We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover. We will continue our efforts to stabilize the collateral for the benefit of all the members of NW Commercial Loan Fund. If you would like to meet with me or talk by telephone please call me at 253-671-1625.

Sincerely,

William R. Stevens
Manager

Enclosures: Consent of Limited Members, Listing of Limited Members

“D”

8/1/05

JUDGE'S WORKING COPY

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SUPERIOR COURT
ADMINISTRATION

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IN COUNTY CLERK'S OFFICE
PIERCE COUNTY WASHINGTON
A.M. AUG 0 1 2005 P.M.
KEVIN STOCK
COUNTY CLERK
BY DEPUTY

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation

Plaintiffs,

v.

MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company,

Defendants.

NO. 04-2-10247-8

DECLARATION OF ROBERT R. MITCHELL IN RESPONSE TO MOTIONS FOR SUMMARY JUDGMENT

RECEIVED BY
06 MAY -8 PM 3:44
SUPERIOR COURT
ADMINISTRATION

COPY

I, Robert Mitchell, hereby declare as follows:

1. I am a plaintiff herein, am competent to testify and make the following statements based upon my own personal knowledge and review of documents, including the declaration of Kevin Byrne submitted in support of his motion for summary judgment. I am also the current manager of NW Commercial Loan Fund, LLC ("NWCLF") and make the following statements based upon my knowledge, review and understanding of NWCLF business records.

2. I hereby incorporate by reference my previous declaration filed in this matter in response to defendants' prior motions for summary judgment. This declaration is intended to supplement that declaration and clarify various points.

3. NW Commercial Loan Fund, LLC ("NWCLF") was formed in 1998. NW, LLC was the purported manager of NWCLF. The members of NW, LLC were Kevin Byrne, Bob Coleman, Mike Price, Tom Price and James Reid. It had always been my understanding that Kevin Byrne was the sole manager of NW, LLC and the de facto manager of NWCLF. It wasn't until around about the time this litigation was filed that I learned that Bob Coleman was a one-time manager of NW, LLC. It had always been my impression that Coleman was Kevin's employee. Certainly that was how Coleman presented himself in my limited interactions with him. It was always clear that Byrne was calling the shots and was in charge of the whole operation - at NW, LLC and of NWCLF.

4. The Operating Agreement for NWCLF describes the business of NWCLF generally as "to invest, reinvest and trade in promissory notes and other obligations secured by mortgages or deeds of trust or in real estate contracts or similar financial instruments (all such items hereafter referred to as 'Mortgages')." The Operating Agreement prohibits the Manager from acting in bad faith or contrary to the interests of the company. A true and correct copy of the Operating Agreement is attached hereto and incorporated by reference as EXHIBIT A.

5. Also executed was a Private Placement Offering Memorandum, which sets forth NWCLF's investment policy in more detail. A true and correct copy of the Offering Memorandum is attached as EXHIBIT B. It states that the company "expects that at least 65% of [its] assets will be invested in commercial loans that are of A or B quality [and] may invest up to 35% of its assets in higher risk commercial loans, including 'hard money' loans." The Offering Memorandum further states that NWCLF "will not permit more than 15% of its long-term assets to be invested in any single Mortgage." The Offering Memorandum then lists general guidelines that the Manager "will follow . . . subject to waiver or exception only in a limited number of instances." Those general guidelines include diversification; primary investment in income-producing properties; primary investment in mortgages in first-lien position (provided that the Manager can invest in mortgages in a lower position if appropriate); and loan-to-value ratios generally of not more than 75% for "A" and

"B" borrowers and 65% for "hard money" borrowers. In no event was the Manager to allow more than 10% of the company's assets to be invested in mortgages not conforming to the guidelines.

6. Attached hereto and incorporated by reference as EXHIBIT C1 are true and copies from my Day Planner, which include dates and times when I met with various people relating to NWCLF - including Kevin Byrne, Will Stevens, Gary Grendahl, Tim Jacobson, and others. In reviewing my Day Planner, I have compiled the dates and times that I met with these people and prepared a timeline. A true and correct copy of this timeline is attached as EXHIBIT C2. As I will indicate in more detail below, the "timeline" that Kevin Byrne wants the court to believe (set out in his 4/14/06 declaration) is wildly inaccurate, references information Byrne never shared with us and also accelerates the timeline for when the NWCLF limited members actually learned that they might not recoup their investments in the fund.

7. I have reviewed Kevin Byrne's declaration (dated 4/14/06) and have several very specific comments. I will address them in order:

Paragraph 10 - 12 Mr. Byrne contends that he had a meeting in February and a meeting in March of 2001 with Gary Grendahl and Will Stevens. I did not attend any of these meetings. I understand that attorney Tom Oldfield sat in on one or more of these meetings and, even though he apparently knew that the managers of NWCLF had invested funds contrary

to the terms of the Operating Agreement and contrary to the Private Placement Memorandum (both of which he helped draft), he failed to disclose these problems to Grendahl or Stevens at this time. Nor did he withdraw from representing NW, LLC or NWCLF despite his obvious conflict of interest.

Had Oldfield disclosed the true situation to Grendahl and Stevens at the time, as set forth in more detail below, I and the other limited members would have had more time and more of an opportunity to address the problem and quite possibly have reduced our damages or been able to take other action to manage the situation. The same is true if Oldfield had withdrawn, as I understand he was ethically obligated to do, from representing NWCLF at the time. This would have been a huge red flag for the limited members and would have prompted an aggressive investigation. Oldfield's presence, and silence in the face of Byrne's lies, lulled me and other investors into a false sense of security.

I met with Byrne on or about April 5, 2001. I was seeking to withdraw $400,000 towards the purchase of a house in Arizona and was getting some evasive answers from Byrne. At that time, I had absolutely no reason to be concerned about the quality of any of the investments, I was just inquiring if there were any reason to be concerned about the liquidity of NWCLF. At this

meeting Byrne reassured me that the fund was fine. I was paid $100,000 and that the balance would be forthcoming, but that full payment could not be made immediately because some loans would have had to been sold at a loss to generate the payment. Byrne reassured me that my investments were secure and payment would be forthcoming.

Byrne never mentioned to me any problems with Bob Coleman or the fact that Coleman had even resigned from NW, LLC. Kevin Byrne's claim that he told me such things is a lie. Nor did he ever promise to "investigate" anything as it was my understanding, based upon his representations, that there was nothing to investigate. To the contrary, he repeatedly assured me that everything was fine and that I had nothing to worry about.

Byrne claims that he provided a Balance Sheet (Exhibit 6 to his deposition) at an April 2001 meeting which detailed all of the NWCLF loans, including the fact that all but one of the loans were in a project entitled Graham Square. I did not receive this Balance Sheet from Kevin Byrne, or anyone else for that matter, in April of 2001. Kevin Byrne's claim to the contrary is untrue. If I ever saw this Balance Sheet it would have been much later, in the Fall of 2001, after NWCLF had received the deeds in lieu of foreclosure for the shopping center and Will Stevens had had an opportunity

to investigate the books and records of NWCLF. It certainly was not as early as April of 2001. Of that I am positive.

Paragraph 13 Byrne claims that he provided me with a document detailing the outstanding loans owned by NWCLF some time in May 2001 (exhibit 7 to Byrne's declaration). Prior to this litigation, I have never seen the document identified as Exhibit 7 to Byrne's declaration. In May of 2001, the limited members did not have the identity of the borrowers on the loans owned by NWCLF. We certainly did not know that almost all of the notes owned by NWCLF were secured by junior deeds of trust in a shopping center in Graham, Washington.

Paragraph 14 Byrne contends that Gary Grendahl and I were involved in discussions with Byrne as early as May 2001 about taking over management of NWCLF. This is flat out not true. Up to this point, I had heard nothing but reassurances from Kevin Byrne. We never discussed the concept of Gary or I taking over NWCLF at this time. Several months later, in the Fall of 2001, after we had learned what had happened with our money, there were discussions about some member or members of NWCLF possibly taking over the fund. However, these discussions occurred in October or November of 2001 - not May, based on my recollection and my review of my day planner for 2001.

Paragraph 15 In this paragraph, Kevin Byrne claims that he met with me, Will Stevens and Gary Grendahl some time prior to June 5, of 2001. According to my records, I met with Byrne on May 30, 2001 and I had a meeting regarding NW, LLC on June 7, 2001. Byrne claims that we were given access to boxes of documents containing the loan files for the loans owned by NWCLF. This is not true. I was never given access to any loan files or provided any meaningful information about the loans owned by NWCLF. Rather, at the end of May 2001, I received a letter from Kevin Byrne advising me that NW, LLC was resigning as manager of the fund (for unexplained reasons) and that a new entity, Loan Holdings, LLC was taking over management of the fund. This new entity was to be owned by Byrne and James Reid, who were represented as being "committed to seeing the investors through the liquidation of the Fund." I also received an unaudited financial statement dated May 31, 2001, which listed $4.8M in assets and $500K in debt owed by the fund (only later was I to learn that this $500K was a loan secured by Byrne and Reid to fund disbursements to investors). Also enclosed was a document entitled "NW Commercial Loan Fund Loans Outstanding". This document identified loans by number and principal balance. It also identified the "collateral" for each loan. Notably only one of these loans was identified as being secured by a 2nd Deed of Trust, which was

far from the truth. All of the loans turned out to be, as learned later, secured by junior deeds of trust. Kevin Byrne chose not to disclose this in May or June of 2001. Instead he kept trying to cover his tracks. Also received in May of 2001 was an expected loan payoff schedule, promising expected payoff of all of the loans by February of 2002.

Byrne's claims that he told me in June of 2001 that the NWCLF loans were in second position, that some loans were delinquent, and that NW, LLC owned 50% of the Graham Square property are entirely false. I recall this conversation that I did eventually have with Kevin Byrne and it did not occur in May or June of 2001. I remember this conversation quite clearly because it came as quite a shock to me and I was furious. This didn't happen in May of 2001 – it happened in August of 2001. On August 6, 2001, Stevens, Grendahl and I met with Byrne asked him to produce information about the loans. After this meeting, we consulted with attorney Mike Woodell, then returned to meet with Byrne on August 9, 2001. To my recollection, it was at this follow up meeting (and definitely in August regardless), that Byrne essentially confessed and admitted that the loans owned by NWCLF were almost entirely tied up in one commercial project in Graham and were in second position. Even at this meeting, however, Byrne was continuing to promise and represent that he felt that investments were secure, that there

were purchasers lined up for the Graham Square project, and that he still adamantly believed that the limited members would be able to recover their investments - when the Graham Square property was sold. He claimed there was substantial equity in the project and, that by trusting him and working with the various lenders, the investments could be salvaged.

Paragraph 16 Kevin Byrne claims he provided me, Will Stevens and Gary Grendahl with "loan memos" in June of 2001 detailing the status of the loans owned by NWCLF. No such thing ever occurred. Until they were produced in this litigation, I had never seen these self-serving "loan memos" that Byrne apparently concocted. I certainly never received them in June of 2001. Nor did I receive site plans, floor plans, rent rolls, copies of the assignments of the deeds of trust or any of the other documents Byrne claims he provided to me in June of 2001.

In June of 2001, I was still receiving placating promises from Kevin Byrne and James Reid. In particular, I received a letter from Loan Holdings, LLC, signed by Kevin Byrne and James Reid some time in June of 2001, along with a partial disbursement from NWCLF. Attached hereto and incorporated as EXHIBIT D is a true and correct copy of the form of the letter that I received from Loan Holdings, LLC some time in June 2001. I do not recall if this is the precise letter that I received (I understand this particular copy was

discovered in documents only recently produced by Byrne), however, it is consistent with the letter that I received in this time frame and accurately reflects my recollection of the letter that I received. Based on this letter I believed that my investments were still safe and that I would be paid in full.

Paragraph 17 Byrne claims that Loan Holding, LLC was created "pursuant to discussions and agreement with Grendahl, Mitchell and Stevens . . . ." This is not true. Byrne and Reid simply formed Loan Holdings, LLC and announced that it had taken over management of NWCLF. There were no "discussions" or "agreement" preceding this decision.

Paragraph 18 Byrne claims he met with me in my office in June of 2001. To my knowledge and recollection, Kevin Byrne has never been in my office - to discuss this matter or for any other purpose. He also implies that I had seen "the property" (Graham Square) by this time (June 2001). That is not true. In June of 2001, I had no idea that NWCLF owned loans secured by deeds of trust on Graham Square. Byrne also claims that I received various documents from him at this purported meeting in June 2001. Although I did, at some point, receive the payout schedule and other documents Byrne identified as Exhibit 10 (the vague, misleading documents), these documents did not disclose the true situation and continued to imply that Byrne

anticipated a liquidation which would result in a complete pay out to the limited members.

Paragraph 20 On or about July 9, 2001, Mike Woodell, an attorney, wrote a letter Loan Holdings, LLC on behalf of the Grendahl identifying some areas of concern.

In July of 2001, I did not know that essentially all of NWCLF's assets (investor money) had been put into a shopping center (Graham Square). I did not know that this shopping center was owned by several LLCs that were 50% owned by the members of NW, LLC (Byrne, Coleman, Price, Price and Reid). I did not know that the loans were all in second (or worse) position and in default. I did not know that many of the loans in first position were in default or would soon be in default. I did not know that the loans owned by the fund could not be sold in an amount sufficient to repay my investment. Of note, Woodell's letter does not include reference to Graham Square. Nor does it make reference to the fact that the notes were all in second position. The reason these facts are not mentioned, is because none of the limited members knew these facts at this time. In summary, none of the limited members knew if we had, in fact, suffered any damages at this point. We were still under the impression, based on Byrne's reassurances, that the fund

would be able to liquidate its loans and pay off the investors (limited members).

Paragraph 21 Shortly after July 16, 2001, I received a letter from Kevin Byrne. A true and correct copy of this letter is attached as EXHIBIT E. Of note, this letter indicated that "[w]e are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you." My understanding at that time was that our investments were still secure and that I could expect full repayment. I did not receive any schedule of loans or loan summaries with this letter. It certainly was not disclosed to me that all of my money had been invested in junior deeds of trust (in default) in a shopping center that was 50% owned by Byrne, Reid, Price, Price and Coleman. This was all part of Kevin Byrne's efforts to placate investor concerns. He continued to provide assurances that the investors would be able to get their money back – as evidenced by this promise of another disbursement.

Paragraph 22 Byrne claims that he executed assignments of deeds of trust on July 17, 2001 "pursuant to agreement". These assignments were executed without the knowledge, consent or agreement of any of the limited members. These assignments were only discovered later when we requested title reports on the Graham Square property – some time in August 2001 or

later. Byrne also claims he had ongoing discussions and meeting with me, Grendahl and Will Stevens in July of 2001. My only meetings with Byrne in July 2001 were on July 30 and 31st. I was not having any discussions with Byrne at this time about managing the Graham Square properties, because I had no idea at this time (nor did any other limited member to my knowledge) that NWCLF owned loans that were secured by the Graham Square properties.

8. As set forth above, I did not discover what defendants had done with the funds invested in NWCLF until August of 2001. This was at a meeting in NW, LLC's offices, located in the basement of a building owned by Byrne and shared with his attorney, Oldfield. Prior to this meeting, I had received repeated assurances from Kevin Byrne (and Reid in the June 2001 letter) that my investments were secure and that I should expect full repayment. Requests for documentation regarding the loan portfolio had been rebuffed and I was told they could not be provided due to privacy concerns. As I had also received a couple of disbursements (in or about May and June), I had continued to be fooled into believing that the loan portfolio owned by NWCLF was sufficient to pay off the investors and that my wife and I would get our life savings back. It was not until the meeting in August of 2001, that I first realized that I might not recoup my investment and that it might not be secure.

9. On June 8, 2001 I faxed Kevin Byrne asking him to verify the balance owing on my investments with NWCLF. I also referenced the checks (from partial disbursements previously received) that Byrne had provided to me for my investments and for Hilary Grenville. A true and correct copy this fax is attached hereto and incorporated by reference as EXHIBIT F. As Mr. Grenville is a very close friend of mine (he is also a principal in GM Joint Venture and in Olympic Cascade Timber, Inc., he had invested in NWCLF on my recommendation (based upon previous representations by Byrne). I know that Grenville was not in touch with anyone at NWCLF in 2001 (including Byrne) and was relying on me to learn what was going on with his investments. I was in periodic contact with Grenville and would advise him that Byrne had been providing reassurances that our investments were secure as more fully set forth above.

10. In November of 2001, Will Stevens took over as the manager of NWCLF. On this same day, the fund accepted deeds in lieu of foreclosure from the Graham Square LLCs - acquiring title to the partially developed commercial property - and all the headaches and problems that came along with it. It really wasn't until the Fall or Winter of 2001, that the true calamity caused by defendants had become apparent. We continued to hope that by leasing out the shopping center it might be possible to recoup at least part of our investments. To suggest that I, or any other investor, understood that we had been swindled by defendants

in July of 2001 and that we might not recover our full investments is preposterous. This is yet another effort by defendants to seek to escape liability for their wrongful acts on some sort of technicality that Kevin Byrne has manufactured. That cannot be justice.

11. Mr. Stevens undertook an investigation of the status of this project. I believe that this took him several months. While this investigation was ongoing, it was still my hope and belief that the limited members would be able to recover our investments in the fund out of an eventual sale of the properties. Until it could be determined the actual status of these properties and this project, it was not apparent to me whether we were going to be able to recover any of our investments. In other words, the limited members did not know whether we had suffered any damages as a result of the wrongful conduct of the defendants (which was gradually being discovered by the investigation of Mr. Stevens and others in late 2001).

12. On or about September 17, 2001, as the attorney in fact for my then wife Lisa Mitchel, myself, Robert R. Mitchell, Inc., GM Joint Ventures, The Mitchell Living Trust, Hilary Grenville and Olympic Cascade Timber, I sent a letter to Kevin Byrne regarding the fraud, breach of fiduciary duties and other malfeasance he and the other managers and members of NW, LLC had engaged in. I wrote this letter after it started to become apparent that the limited members might not be able to recover their investments out of the sale of Graham Square - although we were still

hopeful and Byrne was still making promises. A true and correct copy of this letter is attached hereto and incorporated by reference as EXHIBIT G.

13. On or about November 26, 2001 I received a letter from attorney Judson Gray, who was the attorney and trustee for the party foreclosing on Lots 1, 2, 3 & 4 in the Graham Square project. A true and correct copy of his November 26, 2001 letter is attached as EXHIBIT H. This foreclosure sale was set for November 30, 2001. I had contacted Mr. Gray (as soon as we learned of the pending foreclosure) to see if we could forestall the foreclosure and work out payment arrangements so that NWCLF would not lose these parcels. Mr. Gray was insisting on a complete payoff of the amount outstanding (in excess of $2.4 million) to stop the foreclosure. This property went to a trustee sale on November 30, 2001. This property was subsequently sold for approximately $3.3 million. Had we been given more timely notice of the status of the loans owned by NWCLF, it would have likely been possible to delay or prevent this foreclosure and realize on almost $1 million in equity.

14. Some time after January 11, 2002, I received a letter from Will Stevens, acting as the manager of NWCLF. A true and correct copy of this document is attached as EXHIBIT I. Mr. Stevens detailed the results of his investigation and the possible plans of action. He noted that he had discovered that the loans on the property were in default and that he was working with the lenders to seek

concessions in an attempt to keep the project viable and afloat. The concluding paragraph in Mr. Stevens' letter stated "We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover." It was not until I received a copy of this letter (some time in January 2002), that the limited members had any inkling that we might not recover our full investment. Prior to this time, even after the discovery of some of the facts in August of 2001, we were under the belief that the limited members were expected to recover their investments based on a liquidation of the assets held by the fund.

15. Even after receipt of Mr. Stevens' letter, I know that I and other investors continued to hold out hope that we could recover some or all of our investments. Will Stevens, Gary Grendahl, Tim Jacobson and others worked hard for several years in trying to get the Graham project on track and get it into a situation where it could be profitable or sold for enough money to make at least partial payments to the various investors. For a variety of reasons, including the significant debt service that the fund inherited with this project, leasing out the Graham project was difficult.

16. Regarding the actions (or inactions of attorney Tom Oldfield), it is my opinion that, had he either disclosed the problems with NWCLF early on (March of 2001 or earlier) or withdrawn due to his conflict of interest between NW, LLC,

NWCLF and Kevin Byrne, I and the other investors could likely well have avoided and/or minimized some of our losses and damages. An extra 5-6 months in this matter would have been very significant. When the fund inherited the Graham project in November 2001, it was in pure crisis mode. On the day of the receipt of the deeds in lieu of foreclosure, NWCLF lost one of the significant parcels to a foreclosure. This parcel was fully developed and the only fully leased out portion of the center, which would have generated income and would have been the easiest to sell. There was also soon a pending foreclosure by another bank and notices of default were flooding in. Pacifica Bank (who loaned the fund money based upon the personal guarantees of Byrne and Reid), was demanding payment and filed a lawsuit seeking to garnish the rental income. From the date NWCLF acquired the Graham property it was attempting to respond to one emergency after another. Gary Grendahl, Tim Jacobson and I loaned money to the project to try to keep it afloat and to give it working capital. It took months for Will Stevens and others to sort out the status of various leases and other problems with the property. An additional 5-6 months would have given NWCLF and its investors (including me) more time to investigate and to get the project stabilized. Byrne and Al Olsen had represented that there were several parties with earnest money agreements waiting to purchase portions of the project, but that certain conditions needed to be satisfied. All of these issues required time, which we did not have when NWCLF inherited the

project in November 2001. These issues included: time to review the status of the Site Plan with the county; time to determine the permitted uses for the property; time to evaluate wetland limitations; time to evaluate road approach issues with regards to traffic lights and turn lanes; time to determine the liability or estimated costs for pending improvements to the Meridian Street property; time sort out water rights issues; and time to sort out construction costs for interior road construction. Byrne and Al Olsen had indicated to me that there were earnest money agreements to purchase various parcels – but only if these prior issues were addressed, which we did not have time to do.

We would not have been in a reactive crisis mode if the limited members had learned of the true situation 5-6 months earlier. There would have been more time to attempt to work out compromises with lenders and to try to sell the property. As it was, when the fund acquired the property there was only time to react to the problems and demands for payment which were coming in fast and furious. I cannot say that all of the limited members would have recovered all of their investments had Oldfield disclosed his conflict (or the situation that he had learned from Byrne – his landlord), but I can say with reasonable confidence that it is quite likely (more probable than not) that I and other investors could have limited our damages and most likely have been able to avoid putting the fund into bankruptcy,

which resulted in additional costs and added a layer of difficulty to the entire mess that we inherited from defendants.

17. To make certain that I am absolutely clear, and to summarize, it was not until August of 2001 or later that I, or any of the limited members, became aware that the managers of NWCLF had: (a) invested substantially all of the limited members' funds into a single shopping center project; (b) that all of the loans were secured by junior deeds of trust; (c) that the first position loans were in default or soon to be in default; (d) that the loans owned by NWCLF were in default; and (e) that these loans were made to entities that were 50% owned by defendants Byrne, Reid, Price & Price (and Coleman). As of August of 2001, it was unknown whether the limited members had suffered any damages as a result of the foregoing. It was believed that the limited members' investments could likely be recovered through a sale of the Graham property. We continued to hold this belief for some time and worked hard to try to make it a reality. Nor did the limited members really understand the role that Oldfield had played (by not disclosing the problems or by not withdrawing) until some time after August of 2001.

I hereby declare under penalty of perjury in the State of Washington that the foregoing statements are true and correct to the best of my knowledge and belief.

Dated this 6th day of May, 2006 at Gig Harbor, Washington.

ROBERT

OPERATING AGREEMENT
OF
NW COMMERCIAL LOAN FUND, LLC

THIS OPERATING AGREEMENT OF NW COMMERCIAL LOAN FUND, LLC (hereafter "Agreement") is entered into and made effective this ____ day of April, 1998, executed by the Member whose signature appears on the signature page hereof.

ARTICLE 1 – DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 "Act" means the Washington Limited Liability Company Act (RCW Ch. 25.15).

1.2 "Affiliate" means, with respect to any Person, (i) any other Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling fifty-one percent (51%) or more of the outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of fifty-one percent (51%) or more of the voting interests of any Person described in clauses (i) through (iii). For purposes of this definition, the term "controls," "is controlled by," or "is under common control with": shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.3 "Capital Account" means the capital account determined and maintained for each Unit Holder and Limited Member pursuant to Section 9.3.

1.4 "Capital Contribution" means any contribution to the capital of the Company in cash or property by a Member whenever made.

1.5 "Cash Available for Distribution" means all cash funds derived from operations of the Company (including interest received on reserves and other miscellaneous sources), without reduction for any noncash charges, but less cash funds used to pay current operating expenses and to pay or establish reasonable reserves for contingencies, future expenses, debt payments, and other obligations as determined by a General Manager. Cash Flow shall not include Capital Proceeds but shall be increased by the reduction of any reserve previously established.

1.6 "Certificate of Formation" means the certificate of formation pursuant to which the Company was formed, as originally filed with the office of the Secretary of State on May 11, 1998, and as amended from time to time.

1.7 "Code" means the Internal Revenue Service Code of 1986, as amended or corresponding provisions of subsequent superseding federal revenue laws.

1.8 "Company" means "NW Commercial Loan Fund, LLC."

1.9 "Company Minimum Gain" has the same meaning as the term "partnership minimum gain" in Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

1.10 "Deficit Capital Account" means with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the taxable year, after giving effect to the following adjustments:

(i) credit to such Capital Account any amount that such Member is obligated to restore to the Company under Regulation Section 1.704-1(b)(2)(ii)(c), as well as any additions thereto pursuant to the next to last sentences of Regulation Sections 1.704-2(g)(1) and (i)(5); and

(ii) debit to such Capital Account the items described in Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

This definition of is intended to comply with the provisions of Regulation Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

1.11 "Economic Interest" means a Member's share of Net Profits, Net Losses, and other tax items of the Company and distributions of the Company's assets pursuant to this Agreement and the Act, but shall not include any right to participate in the management of affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members.

1.12 "Economic Interest Owner" means the owner of an Economic Interest who is not a Member.

1.13 "Entity" means any general partnership, limited partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any other organization that is not a natural person.

1.14 "Limited Economic Interest" means the interest conferred upon a holder of a Limited Membership Unit(s) in the distributions and other economic interests in the Company but shall not include the right to vote on or consent to certain acts of the Company as conferred upon Limited Members in this Agreement.

1.15 "Limited Member" means each Person who is the holder of a Limited Membership Unit.

1.16 "Limited Membership Unit" means the Units held by a Limited Member in accordance with Article 7.

1.17 "Limited Membership Interest" means all of a Limited Member's share of the distributions of the Company's assets a Limited Member may be entitled to under Article 7 in accordance with his or her Limited Membership Unit(s) and the right to vote on certain events as specifically set forth in this Agreement.

1.18 "Majority Interest" means, at any time, more than fifty percent (50%) of the then outstanding Units held by Members.

1.19 "Manager" means N W L.L.C. and/or any other Person who may become a substitute or additional Manager as provided in Article 5.

1.20 "Member" means each Person who executes a counterpart of this Agreement as a Member and each Person who may hereafter become a Member. To the extent a Manager has purchased a Membership Interest in the Company, it will have all the rights of a Member with respect to such Membership Interest, and the term "Member" as used herein shall include a Manager to the extent it has purchased a Membership Interest in the Company. If a Person is a Member immediately prior to the acquisition by such a Person of an Economic Interest, such Person shall have all the rights of a Member with respect to such Economic Interest.

1.21 "Membership Interest" means all of a Member's share in the Net Profits, Net Losses, and other tax items of the Company and distributions of the Company's assets pursuant to this Agreement and the Act and all of a Member's rights to participate in the management or affairs of the Company, including the right to vote on, consent to or otherwise participate in any decision of the Members.

1.22 "Member Minimum Gain" has the same meaning as the term "partner nonrecourse debt minimum gain" in Regulation Section 1.704-2(i).

1.23 "Member Nonrecourse Deductions" has the same meaning as the term "partner nonrecourse deductions" in Regulation Sections 1.704-2(i)(1) and (2). The amount of Member Nonrecourse Deductions for a Company fiscal year shall be determined in accordance with Regulation Section 1.704-2(i)(2).

1.24 "Minimum Portfolio Capitalization" shall mean the minimum capitalization required to be held by the Company as cash and Mortgages as a condition precedent to the payment of the Member's residual participation pursuant to paragraph 11.1. The Minimum Portfolio Capitalization shall be calculated as 1.15 multiplied by the sum of all Members' Adjusted Capital Contributions to the Company and all accrued but unpaid Yield.

1.25 "Net Profits" and "Net Losses" shall have the meaning ascribed to those terms in Section 10.5.

1.26 "Nonrecourse Deductions" has the meaning set forth in Regulation Section 1.704-2(b)(1). The amount of Nonrecourse Deductions for a Company fiscal year shall be determined pursuant to Regulation Section 1.704-2(c).

1.27 "Nonrecourse Liability" has the meaning set forth in Regulation Section 1.704-2(b)(3).

1.28 "Percentage Interest" means with respect to any Unit Holder the percentage determined based upon the ratio that the number of Units held by such Unit Holder bears to the total number of outstanding Units.

1.29 "Person" means any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.30 "Regulations" includes proposed, temporary and final Treasury regulations promulgated under the Code and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.31 "Reserves" means, with respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts deemed sufficient by the Manager for working capital and to pay taxes, insurance, debt service or other costs or expenses incident to the ownership or operation of the Company's business.

1.32 "Unit Holder" means a Person who is a Member or who holds an Economic Interest but is not a Member.

1.33 "Units" means the Units issued to any Member under this Agreement as reflected in attached Section 1, as amended from time to time, and the units of Limited Membership issued to any Limited Member as reflected in the records of the Company from time to time, stated at a value of one unit per $1.00 of Adjusted Capital Contributions.

1.34 "Yield" means the adjustable preferred cumulative rate of return to which the Limited Members shall be entitled, calculated as a percentage of each Limited Member's Adjusted Capital Contribution (as defined herein), and defined initially as 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15 year GNMA securities "the GNMA Rate" as published from time to time in the Wall Street Journal. The yield shall be subject to quarterly adjustment and amendment in the discretion of the General Managers, without the necessity of amending this agreement, upon 90 days advance written notice by the company to the Limited Members.

ARTICLE 2 -- FORMATION OF COMPANY

2.1 Formation. The Company was formed on the 11th day of May, 1998, when the Certificate of Formation was executed and filed with the office of the Secretary of State in accordance with and pursuant to the Act.

2.2 **Principal Place of Business.** The principal place of business of the Company shall be 7610-40th Street West, PO Box 64176, University Place, Washington 98466-0176. The Company may locate its places of business at any other place or places as the Manager may from time to time deem advisable.

2.3 **Registered Office and Registered Agent.** The Company's initial registered agent and the address of its initial registered office in the state of Washington are as follows:

Name	Address
Robert J. Coleman	7610 40th Street West Post Office Box 64176 University Place, WA 98466-0176

The registered office and registered agent may be changed by an authorized person from time to time by filing an amendment to the Certificate of Formation in accordance with the Act.

2.4 **Term.** The term of the Company shall be for a period of 30 years, unless the Company is earlier dissolved in accordance with either Article 14 or the Act.

ARTICLE 3 – BUSINESS OF COMPANY

The business of the Company shall be to invest, reinvest and trade in promissory notes and other obligations secured by mortgages or deeds of trust or in real estate contracts or similar financial instruments (all such items hereafter referred to as "Mortgages"), and to exercise all powers necessary or advisable thereto which may be conducted by a limited liability company organized under the Act.

ARTICLE 4 – NAMES AND ADDRESSES OF MEMBERS

The names and addresses of the Members are set forth on attached Schedule 1, as amended or restated from time to time.

ARTICLE 5 – MANAGERS; RIGHTS AND DUTIES

5.1 **Management.** The business and affairs of the Company shall be managed by a Manager, or Managers if two or more Managers are elected by the Members. The Members may name one Manager the Chief Executive Officer. The Manager(s) may designate other positions and titles for officers and employees, whether or not they are a Member, as the Manager(s) may from time to time deem appropriate. Except as otherwise expressly provided in this Agreement, the Manager shall have full and complete authority, power and discretion to manage and control the business, affairs and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of the Company's business. At any time when there is more than one Mana[illegible]

take any action permitted to be taken by the Managers, unless the approval of more than one of the Managers is expressly required by this Agreement or the Act. Without limiting the generality of the foregoing, the Manager shall have power and authority, on behalf of the Company:

5.1.1 to solicit and evaluate Mortgages for investments;

5.1.2 to acquire Mortgages from any Person or Entity as the Manager may determine; and the fact that the Manager or a Member is an Affiliate of such Person or Entity shall not prohibit the Manager from dealing with that Person or Entity;

5.1.3 to manage all day-to-day business with Limited Members and/or holders of Limited Economic Interests including the payment of the Yield and redemption of any Limited Membership Interest.

5.1.4 to invest Company funds in time deposits, short-term governmental obligations, commercial paper or other short-term investments;

5.1.5 to employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

5.1.6 to enter into any and all other agreements with any other Person for any purpose, in such form as the Manager may deem necessary or advisable to carry out the business of the Company.

5.1.7 from time to time open bank accounts in the name of the Company; and

5.1.8 to do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business.

Unless authorized to do so by this Agreement or by the Manager, no Member, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable for any purpose.

5.2 Compensation. The Manager shall receive no compensation for its services rendered hereunder unless agreed to in writing signed by all Members. The Manager shall, however, be reimbursed by the Company for reasonable out-of-pocket expenses incurred by the Manager in connection with the Company's business, including without limitation expenses incurred in the organization of the Company.

5.3 Limitation on Liability; Indemnification. The Manager nor any Affiliate of the Manager shall not be liable, responsible or accountable in damages or otherwise to the Company or the Members for any act or omission by any such Person performed in good faith pursuant to the authority granted to such Person by this Agreement or in accordance with its provisions, and in a manner reasonably believed by the Manager to be within the scope of

Manager and in the best interest of the Company; provided that such act or omission did not constitute fraud, misconduct, bad faith or gross negligence. The Company shall indemnify and hold harmless the Manager, and each director, officer, partner, employee or agent thereof, against any liability, loss, damage, cost or expense incurred by them on behalf of the Company or in furtherance of the Company's interest without relieving any such Person of liability for fraud, misconduct, bad faith or gross negligence. No Member shall have any Personal liability with respect to the satisfaction of any required indemnification of the above-mentioned Persons.

Any indemnification required to be made by the Company shall be made promptly following the fixing of the liability, loss, damage, cost or expense incurred or suffered by a final judgment of any court, settlement, contract or otherwise. In addition, the Company may advance funds to any Person claiming indemnification under this Section 5.3 for legal expenses and other costs incurred as a result of a legal action brought against such Person only if (i) the legal action relates to the performance of duties or services by the Person on behalf of the Company, (ii) the legal action is initiated by a party other than a Member, and (iii) such Person undertakes to repay the advanced funds to the Company if it is determined that such Person is not entitled to indemnification pursuant to the terms of this Agreement.

5.4 Removal. At a meeting called expressly for that purpose, the Manager may be removed at any time, with or without cause, by the affirmative vote of the holders of a Majority Interest. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member.

5.5 Vacancies. Any vacancy occurring for any reason in the number of Managers may be filled by the affirmative vote of two-thirds of the Members.

5.6 Right to Rely on the Manager. Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager as to the identity and authority of any representative or other Person to act on behalf of the Company or any Member.

ARTICLE 6 -- RIGHTS AND OBLIGATIONS OF MEMBERS

6.1 Limitation of Liability. Each Member's liability shall be limited as set forth in this Agreement and the Act.

6.2 Liability for Company Obligations. Members shall not be personally liable for any debts, obligations or liabilities of the Company beyond their respective Capital Contributions, defined below, and any obligation of the Members under Section 9.1 or 9.2 to make Capital Contributions, except as otherwise provided by law.

6.3 Approval of Sale of All Assets. The Company shall not sell, exchange or otherwise dispose of all, or substantially all, of its assets without the affirmative vote of the holders of two-thirds of the Units held by Members.

6.4 **Inspection of Records.** Upon reasonable request, each Member shall have the right to inspect and copy at such Member's expense, during ordinary business hours the records required to be maintained by the Company pursuant to Section 12.5.

6.5 **No Priority and Return of Capital.** Except as expressly provided in Articles 7, 10 or 11, no Unit Holder shall have priority over any other Unit Holder, either as to the return of Capital Contributions or as to Net Profits, Net Losses or distributions; provided, that this Section 6.5 shall not apply to loans made by a Member to the Company.

6.6 Withdrawal of Member. Except as expressly permitted in this Agreement, no Member shall voluntarily resign or otherwise withdraw as a Member. Unless otherwise approved by Members holding a Majority Interest, a Member who resigns or withdraws shall be entitled to receive only those distributions to which such Person would have been entitled had such Person remained a Member (and only at such times as such distribution would have been made had such Person remained a Member). The remedy for breach of this Section 6.6 shall be monetary damages (and not specific performance), which may be offset against distributions by the Company to which such Person would otherwise be entitled.

ARTICLE 7 -- LIMITED MEMBERSHIPS

7.1 Limited Members. There shall be a class of members created by way of this Article 7 known as Limited Members. The minimum initial contributions for a Limited Member is $25,000. A Limited Member shall be entitled to only those rights specifically set forth in this Article 7. Except as set forth in this Article 7, a Limited Member shall not be entitled to any right given to Members elsewhere in this Agreement.

7.2 Limited Membership Unit(s). A Limited Membership Unit is the interest owned by a Limited Member as set forth in this Agreement. There are hereby created 20,000,000 Limited Membership Units. Each Limited Membership Unit shall be available for sale by the Company only in compliance with State and Federal securities laws. Each Limited Member and each of his or her Limited Membership Units shall be restricted in such a manner to comply with resale and transfer restrictions placed on like securities by applicable State and Federal law.

7.2.1 Fractional Limited Membership Units. Notwithstanding the foregoing, the Company may not sell fractions of a Limited Membership Unit.

7.2.2 Consideration. Each Limited Membership Unit shall be sold for an amount no more or less than One Dollar ($1.00) payable in US currency or like consideration acceptable to the Company.

7.3 **Limitation of Liability.** Each Limited Member's liability shall be limited in the same manner as a Member's liability elsewhere in this Agreement and in the Act.

7.4 Liability for Company's Obligations. Limited Members and the holders of a Limited Economic Interest shall not be personally liable for any debts, obligations or liabilities of the Company beyond their respective Limited Membership Units. Limited Members shall not be liable as a Member for Capital Contributions.

7.5 Approval of Sale of All Assets. The Company shall not sell, exchange or otherwise dispose of all, or substantially all, of its assets without the affirmative vote of Limited Members holding a majority of the Limited Membership Units.

7.6 Priority and Return of Capital.

7.6.1 Priority. In the event of any liquidation, dissolution or winding up of this Company, whether voluntary or involuntary, Limited Members and the holders of a Limited Economic Interest shall be entitled to be paid before any sums shall be paid or any assets distributed to or among the Members or Economic Interest Owners out of the assets of this Company available for distribution to Members or Economic Interest Owners of this Company, whether such assets are capital or earnings, the sum of $1.00 for each Limited Membership Unit, plus any unpaid Yield related to such Limited Membership Unit. If the assets of this Company are insufficient to permit payment in full to the Limited Members or the holders of Limited Economic Interests as provided in this Section 7.7.1, then the entire assets of this Company available for distribution shall be distributed ratably among the holders of Limited Membership Units and the holders of Limited Economic Interests.

7.6.2 Equal Priority. Except as expressly provided in this Article 7, no Limited Member or holder of a Limited Economic Interest shall have priority over any other Limited Member or holder of a Limited Economic Interest as to any distribution by the Company. This Section 7.7.2 does not apply, however, to loans made by a Limited Member or holder of a Limited Economic Interest to the Company.

7.7 Distributions.

7.7.1 Yield. The Company shall pay quarterly out of funds or assets of this Company legally available therefore, with respect to Limited Membership Units or Fractional Limited Membership Units in an amount, in the aggregate for all Limited Member Units, equal to the lesser of (1) 99% of the Company's cash available for distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield") compounded and payable quarterly, calculated as a percentage of each Limited Member's Adjusted Capital Contribution as defined in this Operating Agreement. In the event that the amount paid is less than the Yield, the unpaid amount of the Yield shall be cumulative and shall be paid from Cash Available for Distribution to the extent available in the following quarter or quarters or provided hereafter.

7.7.2 Reinvestment of Yield. If the Company and Limited Member or holder of a Limited Economic Interest each agree, the Company may issue additional Limited Membership

Unit(s) equal in value to the Yield otherwise payable in lieu of paying the Yield in cash pursuant to Subsection 7.8.1.

7.8 Redemption. The Company may, at any time upon 30 days notice to the holder of the Limited Membership Unit, redeem all or a portion of the Limited Membership Unit by paying to the holder of the Unit a sum equal to $1.00 for each Limited Membership Unit.

7.9 Priority - Limitations on Distributions. The Company's obligation to make distributions in accordance with this Section 7 is subject to R.C.W. 25.15.235, which prohibits the Company from making a distribution to a member to the extent that at the time of the distribution, after giving affect to the distribution (a) the Company would not be able to pay its debts as they become due in the usual course of business, or (b) all liabilities of the Company, other than liabilities to Members on account of their limited liability company interests and liabilities for which the recourse of creditors is limited to specified property of the Company, exceed the fair value of the assets of the Company, except that the fair value of property that are subject to a liability for which the recourse of creditors is limited shall be included in the assets of the limited liability Company only to the extent that the fair value of that property exceeds that liability.

7.10 Distributions Cumulative. Notwithstanding any provision in this Article 7 or elsewhere in this Agreement, any Yield which becomes due to a Limited Member and is not paid when due shall accumulate and shall be payable, as to each quarter installment not paid, at the end of the first quarter when the Company could, as of such quarter-end, pay such unpaid accumulated Yield without violating Section 7.10 above or R.C.W. 25.15.235. The Company shall not make a distribution to the Members until such time as all Yield, including any accumulated Yield, shall have been made to the Limited Members or holders of a Limited Economic Interests in respect of their Limited Membership Unit(s).

7.11 Transferability.

7.11.1. General. A Limited Member is subject to the same restriction on transference of his or her Limited Membership Interest as a Member or Economic Interest Owner under Article 13 of this Agreement and as provided under applicable State and Federal securities law, including a right of first refusal in favor of the Members of the Company.

7.11.2 Transferee. A transferee of a Limited Membership Unit(s) who complies with the restrictions on transfer set forth in Article 13 and elsewhere in this Agreement and obtains the written consent of the Members of the Company is entitled to all the rights of his or her Limited Membership Unit(s) as a Limited Member as conferred in this Article 7 and elsewhere in this Agreement.

7.11.3 Limited Economic Interest. A Person who receives a Limited Membership Unit or Fractional Limited Membership Unit without compliance with Article 13, whether by voluntary transference or gift or by involuntary means, shall only possess a Limited Economic

Interest until such time as such Person fully complies with Article 13 and receives the consent of the Members of the Company.

7.12 Voting. Except as expressly provided elsewhere in this Agreement or by law, a Limited Member shall have no right to participate in the management of the Company or to vote on any matter subject to vote of the Members or Unit Holders of the Company.

7.13 Dissolution. Limited Members shall be subject to certain events of dissolution as provided in Article 14 of this Agreement. In the event of dissolution of the Company, and the business of the Company is not continued as provided in Article 14, the Limited Members and the holders of Limited Economic Interests shall be entitled to a distribution of the assets of the Company prior to any distribution to any Member.

7.14 Inspection of Records. A Limited Member shall be entitled to inspect and copy the books and records of the Company as provided to Members under Section 6.4 of this Agreement.

ARTICLE 8 -- MEETINGS OF MEMBERS

8.1 Annual Meeting. The annual meeting of the Members shall be held on the second Tuesday of July of each and every year, or at such other time as shall be determined by the Members, for the purpose of the transaction of such business as may come before the meeting.

8.2 Special Meetings. Special meetings of the Members, for any purpose or purposes, may be called by the Manager or by Members holding at least ten percent (10%) interest in the Company.

8.3 Chairman of the Members. The Members may elect one of the Members Chairman of the Members and a second Member to be Vice Chairman of the Members. The Chairman of the Members shall advise and consult with the Members and the Manager of the Company as to the determination of the policies of the Company, shall preside at all meetings of the Members, and shall perform such other functions and responsibilities as the Members shall designate from time to time. If the Chairman of the Members is unable or refuses to act as Chairman of the Members, the Vice Chairman of the Members shall act in his or her place. The Chairman and Vice Chairman of the Members shall serve for two years and until their successors are elected and assume their duties as chairman.

8.4 Place of Meetings. The Manager or the Member(s) may designate any place, either within or outside the State of Washington, as the place of meeting for any meeting of the Members. If no designation is made, or if a special meeting is called, the place of meeting shall be the principal office of the Company specified in Section 2.2.

8.5 Notice of Meeting. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than ten (10) nor more than fifty (50) days before the

either Personally or by mail, by or at the direction of the Manager or the Members calling the meeting, to each Member entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered two calendar days after being deposited in the United States Mail, addressed to the Member as specified in Article 2, with postage thereon prepaid.

8.6 **Record Date.** For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any distribution, the date on which notice of the meeting is mailed or the date on which the resolution declaring such distribution is adopted as the case may be shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

8.7 **Quorum.** A Majority Interest represented in person or by proxy shall constitute a quorum at any meeting of Members. In the absence of a quorum at any such meeting, a majority of the Units held by Members so represented may adjourn the meeting from time to time for a period not to exceed sixty (60) days without further notice. However, if the adjournment is for more than sixty (60) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notice. The Members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal during such meeting of a Member whose absence would cause less than a quorum.

8.8 **Manner of Acting.** If a quorum is present, the affirmative vote of Members holding more than a fifty percent (50%) of the Units represented at the meeting in Person or by proxy shall be the act of the Members, unless the vote of a greater or lesser percentage is required by this Agreement or the Act.

8.9 **Proxies.** At all meetings of Members a Member may vote in Person or by proxy executed in writing by the Member. Such proxy shall be filed with the Manager before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

8.10 **Action by Members Without a Meeting.** Action required or permitted to be taken at a meeting of Members may be taken without a meeting if the action is evidenced by one or more written consents describing the action taken, executed by Members entitled to vote thereon and delivered to the Manager for inclusion in the Company's minutes. Action taken under this Section 8.10 is effective when all Members entitled to vote thereon have signed such consents, unless such consents specify a different effective date. The record date for determining Members entitled to take action without a meeting shall be the date the first Member signs a consent.

8.11 Waiver of Notice. When any notice is required to be given to a Member, a waiver thereof in writing signed by the Member entitled to such notice, whether before, at, or after the time stated therein, shall be equivalent to the giving of such notice.

ARTICLE 9 -- CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS

9.1 Members' Capital Contributions. Each Member shall contribute such amount as is set forth in attached Schedule 1 as such Member's share of the Members' initial Capital Contribution.

9.2 Additional Contributions. Each Member shall be required to make such additional Capital Contributions as shall be determined by the Manager from time to time to be reasonably necessary to meet the expenses of the Company.

The Manager shall give written notice to each Member of the amount of any required additional Capital Contribution, and each Member shall pay to the Company such additional Capital Contribution no later than thirty (30) days following the date such notice is given. Nothing contained in this Section 9.2 is or shall be deemed to be for the benefit of any Person other than the Members and the Company, and no such Person shall under any circumstances have any right to compel any actions or payments by the Members.

9.3 Capital Accounts.

9.3.1 Establishment and Maintenance. A separate Capital Account will be maintained for each Unit Holder throughout the term of the Company in accordance with the rules of Regulation Section 1.704-1(b)(2)(iv) of the Treasury Regulations promulgated under the Internal Revenue Code of 1986, as amended. Each Unit Holder's Capital Account will be increased by (1) the amount of money contributed by such Unit Holder to the Company; (2) the fair market value of property contributed by such member to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take the property subject to under Code Section 752); (3) allocations to such Unit Holder of Net Profits; (4) any items in the nature of income and gain that are specially allocated to the Unit Holder pursuant to Sections 11.2 and 11.3; and (5) allocations to such Unit Holder of income and gain exempt from federal income tax. Each Unit Holder Capital Account will be decreased by (1) the amount of money distributed to such Unit Holder by the Company; (2) the fair market value of property distributed to such Unit Holder by the Company (net of liabilities secured by such distributed property that such member is considered to assume or take the property subject to Code Section 752); (3) allocations to such Unit Holder of expenditures described in Code Section 705(a)(2)(B); (4) any items in the nature of deduction and loss that are specially allocated to the Unit Holder pursuant to Sections 11.2 and 11.3; and (5) allocations to such Unit Holder of Net Losses. In the event of a permitted sale or exchange of a Unit Holder's interest in the Company, the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Membership Interest or Economic Interest.

9.4 Withdrawal or Reduction of Members' Contributions to Capital. A Member shall not receive out of the Company's property any part of its Capital Contribution until all liabilities of the Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains property of the Company sufficient to pay them. A Member, irrespective of the nature of its Capital Contribution, has only the right to demand and receive cash in return for its Capital Contribution.

ARTICLE 10 - ALLOCATIONS OF NET PROFITS AND LOSSES

10.1 Allocation of Profits and Loss and Distribution of Cash Flow.

10.1.1 Net Losses shall be allocated one percent to the Members to be allocated in accordance with Paragraph 4.5.1, and 99 percent to the Limited Members, collectively, to be allocated among them in accordance with paragraph 4.5.2.

10.1.2 Net Profits shall be allocated one percent to the Members, to be allocated in accordance with Paragraph 4.5.1; and, to the Limited Members, the lesser of (1) 99 percent or (2) the Limited Members share of any Cash Available for Distribution to be allocated in accordance with Paragraph 4.5.2. Any remaining Net Profits shall be allocated to the Members, to be allocated in accordance with Paragraph 4.5.1.

10.2 Distribution of Cash Available for Distribution.

10.2.1 Cash Available for Distribution shall be allocated and distributed quarterly ~~one percent to Members to be allocated in accordance with Paragraph 4.5.1, and the lesser of (1)~~ 99 percent, or (2) the amount of any Yield currently payable or accrued and unpaid to the Limited Members collectively, to be allocated among them in accordance with Paragraph 4.5.2. Thereafter, any remaining Cash Available for Distribution shall be allocated and distributed, after redemption of all shares for which timely notice of redemption has been provided, to the Members, but only to the extent that the payment thereof to the Members does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization.

10.2.2 Notwithstanding the preceding provisions of this Section, distributions of Company cash or assets in liquidation of Company shall be made in accordance with paragraph 7.2 and distributions in liquidation of the Interest Holder's interest where there is no liquidation of the Company shall be made in accordance with Paragraph 4.3.

10.3 Distribution and Liquidation of Interest Holder's Interest. In the event of a distribution to an Interest Holder in liquidation of his interest in the Company which does not result in, or is not a part of, a liquidation of the Company under Article 7.2:

10.3.1 All of the assets of the Company including without limitation the goodwill and/or going concern value of the Company, shall be deemed to be sold at their then fair market

value and the Capital Account of the Interest Holder receiving the liquidating distribution shall be adjusted in accordance with Article 3.7 to reflect such sale.

10.3.2 Liquidating distributions in cash shall be distributed, to the extent possible, to such Interest Holder in accordance with such Interest Holder's positive Capital Account balance after adjustment in accordance with paragraph 3.7 and in accordance with the requirements of Treasury Regulation Section 1.704-1(b)(2)(ii)(b).

10.4 Transfer of Interest in Company by any Interest Holder. In the event of a permitted transfer under Article 6.3 hereof of an interest in the Company by any Interest Holder, Net Profits and Net Losses shall be allocated to the persons who were Interest Holders during the first fiscal period from which such allocation is to be made, based upon the number of days in such fiscal period during which the person was an Interest Holder in the Company, subject, however, to Section 706(d) of the Code.

10.5 Allocations Among Interest Holders.

10.5.1 In the even there is more than one member, all allocations to the Members collectively, shall be allocated to each Member in accordance with that Member's percentage as of the time of such allocation.

10.5.2 All allocations to the Limited Members collectively shall be allocated to such Limited Members in accordance with the percentage, to be determined at the time of such allocation, equal to such Limited Member's adjusted capital contribution divided by the sum of all Limited Member's adjusted capital contributions.

10.5.3 Withholding. All amounts required to be withheld pursuant to Section 1446 of the Code or any other provision of federal, state, or local tax law shall be treated as amounts actually distributed to the affected Interest Holders for all purposes under this Agreement.

4.5.4. Other Allocations. All items of Company income, gain, loss, deduction and credit the allocation of which is not otherwise provided for in this Agreement, including allocation of such items for tax purposes, shall be allocated among the Members in the same proportions as they share Profits or Losses for the taxable year pursuant to this Article IV.

10.6 Liquidation and Dissolution.

10.6.1 If the Company is liquidated, the assets of the Company shall be distributed to the Interest Holders in accordance with the balances in their respective Capital Accounts, after taking into account the allocations of Profit or Loss pursuant to *Sections* 4.1 or 4.2.

10.6.2 No Interest Holder shall be obligated to restore a Negative Capital Account.

10.7 General.

10.7.1 Except as otherwise provided in this Agreement, the timing and amount of all distributions shall be determined by the General Managers.

10.7.2 If any assets of the Company are distributed in kind to the Interest Holders, those assets shall be valued on the basis of their fair market value, and any Interest Holder entitled to any interest in those assets shall receive that interest as a tenant-in-common with all other Interest Holders so entitled. Unless the Members otherwise agree, the fair market value of the assets shall be determined by an independent appraiser who shall be selected by the General Managers. The Profit or Loss for each unsold asset shall be determined as if the asset had been sold at its fair market value, and the Profit or Loss shall be allocated as provided in Section 4.2 and shall be properly credited or charged to the Capital Accounts of the Interest Holders prior to the distribution of the assets in liquidation pursuant to Section 4.4.

10.7.3 The General Managers are hereby authorized, upon the advice of the Company's tax counsel, to amend this Article IV to comply with the Code and the Regulations promulgated under Section 704(b) of the Code; provided, however, that no amendment shall materially affect distributions to an Interest Holder without the Interest Holder's prior written consent.

ARTICLE 11 – DISTRIBUTIONS

11.1 Cash Distributions.

11.1.1 Nonliquidating Distributions. Distributions of Cash Available for Distribution, other than distributions in liquidation pursuant to Section 11.1.2 shall be made pursuant to Article 10, above.

11.1.2 Distributions in Liquidation. Notwithstanding Section 11.1.1, distributions in liquidation of the Company shall be made to each Unit Holder in the manner set forth in Section 14.3.3.

11.2 Distributions in Kind. Non-cash assets, if any, shall be distributed in a manner that reflects how cash proceeds from the sale of such assets for fair market value would have been distributed (after any unrealized gain or loss attributable to such non-cash assets has been allocated among the Unit Holders in accordance with Article 10).

11.3 Withholding; Amounts Withheld Treated as Distributions. The Manager is authorized to withhold from distributions, or with respect to allocations or payments, to Unit Holders and to pay over to the appropriate federal, state or local governmental authority any amounts required to be withheld pursuant to the Code or provisions of applicable state or local law. All amounts withheld pursuant to the preceding sentence in connection with any payment,

distribution or allocation to any Unit Holder shall be treated as amounts distributed to such Unit Holder pursuant to this Article 11 for all purposes of this Agreement.

11.4 Limitation Upon Distributions. No distribution to Members or to Economic Interest Owners shall be declared or paid unless, prior to distribution, all accumulated and unpaid Yield to Limited Members shall have been paid. No distribution shall be declared and paid unless, after the distribution is made, the assets of the Company are in excess of all liabilities of the Company, except liabilities to Members on account of their contributions.

ARTICLE 12 -- ACCOUNTING, BOOKS, AND RECORDS

12.1 Accounting Principles. The Company's books and records shall be kept, and its income tax returns prepared, under such permissible method of accounting, consistently applied, as the Manager determines is in the best interest of the Company and its Unit Holders.

12.2 Interest on and Return of Capital Contributions. No Unit Holder shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

12.3 Loans to Company. Nothing in this Agreement shall prevent any Unit Holder from making secured or unsecured loans to the Company.

12.4 Accounting Period. The Company's accounting period shall be the calendar year.

12.5 Records, Audits and Reports. At the expense of the Company, the Manager shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at it principal place of business the following records:

12.5.1 A current list and past list, setting forth the full name and last known mailing address of each Member, Economic Interest Owner and Manager;

12.5.2 A copy of the Certificate of Formation and all amendments thereto;

12.5.3 Copies of this Agreement and all amendments hereto;

12.5.4 Copies of the Company's federal, state, and local tax returns and reports, if any, for the three most recent years;

12.5.5 Minutes of every meeting of the Unit Holders and any written consents obtained from Unit Holders for actions taken by Unit Holders without a meeting; and

12.5.6 Copies of the Company's financial statements for the three most recent years.

12.6 Tax Matters Partner.

12.6.1 Designation. The Manager, or if the Manager is ineligible to serve then the Unit Holder with the largest interest in Company profits, shall be the "tax matters partner" of the Company for purposes of Code Section 6221 et seq. and corresponding provisions of any state or local tax law.

12.6.2 Expenses of Tax Matters Partner; Indemnification. The Company shall indemnify and reimburse the tax matters partner for all reasonable expenses, including legal and accounting fees, claims, liabilities, losses and damages incurred in connection with any administrative or judicial proceeding with respect to the tax liability of the Unit Holders attributable to the Company. The payment of all such expenses shall be made before any distributions are made to Unit Holders (and such expenses shall be taken into consideration for purposes of determining Distributable Cash) or any discretionary Reserves are set aside by the Manager. Neither the tax matters partner nor any Member shall have any obligation to provide funds for such purposes. The provisions for exculpation and indemnification of the Manager set forth in Section 5.3 of this Agreement shall be fully applicable to the Member acting as tax matters Person for the Company.

12.7 Returns and Other Elections. The Manager shall cause the preparation and timely filing of all tax and information returns required to be filed by the Company pursuant to the Code and all other tax and information returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Unit Holders within a reasonable time after the end of the Company's fiscal year.

Except as otherwise expressly provided to the contrary in this Agreement, all elections permitted to be made by the Company under federal or state laws shall be made by the Manager in his sole discretion.

ARTICLE 13 – TRANSFERABILITY

13.1 General. Except as otherwise expressly provided in this Agreement, neither a Member nor an Economic Interest Holder shall have the right to:

13.1.1 sell, assign, transfer, exchange or otherwise transfer for consideration, (collectively, "sell" or "sale"),

13.1.2 gift, bequeath or otherwise transfer for no consideration whether or not by operation of law, except in the case of bankruptcy (collectively "gift"), all or any part of his Membership Interest or Economic Interest. Each Member and Economic Interest Holder hereby acknowledges the reasonableness of the restrictions on sale and gift of Membership Interests imposed by this Agreement in view of the Company's purposes and the relationship of the Members and Economic Interest Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable. In the event that any Unit Holder pledges or other

his Membership Interest or Economic Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 13.

13.2 First Refusal Rights.

13.2.1 A Unit Holder desiring to sell all or any portion of its Membership Interest or Economic Interest to a third party purchaser shall obtain from such third party purchaser a bona fide written offer to purchase such Interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor. Such Unit Holder shall give written notice to the other Unit Holders and the Manager of its intention to so transfer such Interest. Such notice shall set forth the complete terms of the written offer to purchase and the name and address of the proposed third party purchaser.

13.2.2 The other Unit Holders, shall, on a basis pro rata to their Units or on a basis pro rata to the Units of those remaining Unit Holders exercising their first refusal rights, have the first right to purchase all (but not less than all) of the Interests proposed to be sold by the selling Unit Holder upon the same terms and conditions stated in the notice given pursuant to Section 13.2.1 by giving written notice to the other Unit Holders and the Manager within ten (10) days after such notice from the selling Unit Holder. The failure of the Unit Holder to so notify the other Unit Holders and the Manager of its desire to exercise its first refusal rights within said ten (10) day period as required by this Section 13.2.2 shall result in the termination of such Unit Holder's first refusal rights.

Within ten (10) days after expiration of the ten (10) day period specified in the preceding paragraph, the Manager shall notify those Unit Holders electing to exercise their first refusal rights of any Units that the other Unit Holders did not elect to purchase. Those Unit Holders exercising first refusal rights in accordance with the preceding paragraph shall then notify the Manager and the other purchasing Unit Holders whether they elect to purchase such remaining Units, which shall be pro rata or allocated in such other manner as the purchasing Unit Holders shall agree. If no such notification is received by the Manager from any such Unit Holders in accordance with this paragraph, no Unit Holder shall have any further first refusal rights with respect to such Units.

If Unit Holders have elected to purchase all of the Units offered by the selling Unit Holder, the selling Unit Holder shall sell such Units upon the same terms and conditions specified in the notice required by Section 13.2.1, and the purchasing Unit Holders shall have the right to close the purchase within thirty (30) days after receipt of notification from the Manager that such Unit Holders have elected to purchase the selling Unit Holder's Units.

If Unit Holders do not elect to purchase all of the Units offered by the selling Unit Holder in accordance with this Section 13.2, then the selling Unit Holder shall be entitled to sell such Units to the third party purchaser in accordance with the terms and conditions upon which the purchase is to be made as specified in the notice under Section 13.2.1. However, if such sale is not completed within thirty (30) days following expiration of the other Unit Holders' first refusal rights

under this Section 13.2, then the selling Unit Holder shall not be entitled to complete the sale to such third party purchaser and the selling Unit Holder's Units shall continue to be subject to the rights of first refusal set forth in this Section 13.2 with respect to any proposed subsequent transfer.

13.2.3 Upon the purchase or the gift of a Membership Interest or an Economic Interest, and as a condition to recognizing the effectiveness and binding nature of any sale or gift and (subject to Section 13.3 below) substitution of a Person as a new Unit Holder, the Manager may require the transferring Unit Holder and the proposed purchaser, donee or successor-in-interest, as the case may be to execute, acknowledge and deliver to the Manager such instruments of transfer, assignment and assumption and such other agreements and to perform all such other acts that the Manager may deem necessary or desirable to:

13.2.3.1 constitute such Person as a Unit Holder;

13.2.3.2 confirm that the Person desiring to become a Unit Holder, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement (whether such Person is to be admitted as a Member or will merely be an Economic Interest Owner);

13.2.3.3 maintain the status of the Company as a partnership for federal tax purposes; and

13.2.3.4 assure compliance with any applicable state and federal laws, including securities law and regulations.

13.2.4 Any sale or gift of a Membership Interest or Economic Interest or admission of a Member in compliance with this Article 13 shall be deemed effective as of the last day of the calendar month in which the remaining Members' consent thereto was given, or, if no such consent was required pursuant to Section 13.3, then on such date that the transferor and the transferee both comply with Section 13.2.3. The transferring Unit Holder hereby indemnifies the Company and the Manager against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 13.

13.2.5 Subject to Section 13.3, a Unit Holder may gift all or any portion of its Membership Interest and Economic Interest (without regard to Section 13.2.1 and 13.2.2), provided, that the donee complies with Section 13.2.3 and further provided that the donee is either such Unit Holder's spouse, former spouse, or lineal descendent (including adopted children). In the event of the gift of all or a portion of a Unit Holder's Membership Interest or Economic Interest to one or more donees who are under 18 years of age, one or more trusts shall be established to hold the gifted interest(s) for the benefit of such donee(s) until all of the donee(s) reach the age of at least 18 years.

13.3 Transferee Not Member in Absence of Consent.

13.3.1 Notwithstanding anything to the contrary in this Article 13, if the sale or gift of a Member's membership interest to a transferee or donee who is not a Member immediately prior to the sale or gift is not approved in writing by all of the other Members, in their sole discretion, then the proposed transferee or donee shall have no right to participate in the management of the business and affairs of the Company or to become a Member.

13.3.2 Promptly following any sale or gift of a Member's interest which does not at the same time transfer the balance of the rights associated with such Person's membership interest, the Company shall purchase from such Person, and such Person shall sell to the Company for a purchase price of $100, all such remaining rights and interests retained by such Person which immediately prior to such sale or gift were associated with the transferred economic interest. The acquisition by the Company of such Person's rights shall not cause a dissolution of the Company and such Person shall no longer be a Member.

ARTICLE 14 – DISSOLUTION AND TERMINATION

14.1 Dissolution. The Company shall be dissolved upon the occurrence of any of the following events:

14.1.1 upon expiration of the term specified in Section 2.4;

14.1.2 by the written agreement of all Members; or

14.1.3 a Person ceases to be a Member upon the occurrence of any of the events specified in Section 25.15.130 of the Act, unless the business of the Company is continued with the consent of all of the remaining Members within ninety (90) days following the occurrence of such event.

14.2 Allocation of Net Profit and Loss in Liquidation. The allocation of Net Profit, Net Loss and other items of the Company following the date of dissolution, including but not limited to gain or loss upon the sale of all or substantially all of the Company's assets, shall be determined in accordance with the provisions of Articles 10 and 11 and shall be credited or charged to the Capital Accounts of the Unit Holders in the same manner as Net Profit, Net Loss, and other items of the Company would have been credited or charged if there were no dissolution and liquidation.

14.3 Winding Up, Liquidation and Distribution of Assets. Upon dissolution, the Manager shall immediately proceed to wind up the affairs of the Company, unless the business of the Company is continued as provided in this Article 14. The Manager shall sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Manager may determine to distribute any assets to the Unit Holders in kind) and shall apply the proceeds of such sale and the remaining Company assets, subject to the limitations imposes in Article 7 in favor of Limited Members, in the following order of priority:

14.3.1 Payment of creditors, including Members and Managers who are creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of the Company, other than liabilities for distributions to Members;

14.3.2 To establish any reserves that the Manager deems reasonably necessary for contingent or unforeseen obligations of the Company and, at the expiration of such period as the Manager shall deem advisable, the balance then remaining in the manner provided in Paragraph (c) below;

14.3.3 By the end of the taxable year in which the liquidation occurs (or if later, within ninety (90) days after the date of such liquidation), to the Unit Holders in proportion to the positive balances of their respective Capital Accounts, as determined after taking into account all Capital Account adjustments for the taxable year during which the liquidation occurs (other than those made pursuant to this Section 14.3.3.

14.4 No obligation to Restore Negative Capital Account Balance on Liquidation. Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), if any Unit Holder has a negative Capital Account balance (after giving effect to all contributions, distributions, allocations and other Capital Account adjustments for all taxable years, including the year during which such liquidation occurs), such Unit Holder shall have no obligation to make any Capital Contribution to the Company, and the negative balance of such Unit Holder's Capital Account shall not be considered a debt owed by such Unit Holder to the Company or to any other Person for any purpose whatsoever.

14.5 Termination. The Manager shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets. Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

14.6 Certificate of Cancellation. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Unit Holders, the Manager shall file a certificate of cancellation as required by Section 203 of the Act. Upon filing the certificate of cancellation, the existence of the Company shall cease, except as otherwise provided in the Act.

14.7 Return of Contribution Nonrecourse to Other Members. Except as provided by law or as expressly provided in this Agreement, upon dissolution each Unit Holder shall look solely to the assets of the Company for the return of its Capital Contribution. If the property remaining after the payment or discharge of liabilities of the Company is insufficient to return the contributions of Unit Holders, no Member shall have recourse against any other Unit Holder.

ARTICLE 15 -- INDEPENDENT ACTIVITIES OF MANAGERS AND MEMBERS

Any Manager or Member may engage in or possess an interest in other business ventures of every nature and description, independently or with others, including but not limited to, the ownership, financing, management, employment by, lending to or otherwise participating in businesses which are similar to the business of the Company, and neither the Company nor any of the Managers or Members shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits therefrom.

ARTICLE 16 -- MISCELLANEOUS PROVISIONS

16.1 Notices. Any notice, demand, or communication required or permitted under this Agreement shall be deemed to have been duly given if delivered Personally to the party to whom directed or, if mailed by registered or certified mail, postage and charges prepaid, addressed (a) if to a Member, to the Member's address specified on attached Schedule 1, (b) if to the Company, to the address specified in Section 2.2, and (c) if to the Manager, to the address specified in Section 2.3. Except as otherwise provided herein, any such notice shall be deemed to be given when Personally delivered or, if mailed, three (3) business days after the date of mailing. A Member, the Company or the Manager may change its address for the purposes of notices hereunder by giving notice to the others specifying such changed address in the manner specified in this Section 16.1.

16.2 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Washington, and particularly in accordance with the Act.

16.3 Amendments. This Agreement may not be amended except by the unanimous written agreement of all of the Members.

16.4 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

16.5 Headings. The headings in this Agreement are inserted for convenience only and shall not affect the interpretations of this Agreement.

16.6 Waivers. The failure of any Person to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

16.7 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy shall not preclude or waive the

right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

16.8 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

16.9 Heirs, Successors and Assigns. Each of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

16.10 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

16.11 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

16.12 Investment Representations. Membership interests have not been registered under the Securities Act of 1933, the Securities Act of Washington or any other state securities laws (collectively, the "Securities Acts") because the Company is organized in reliance upon the exemptions from the registration requirements of the Securities Acts, and the Company is relying upon the fact that membership interests are to be held by Members for investment purposes only. Accordingly, each Member hereby confirms his or her interest has been acquired for his or her own account, for investment and not with a view to the resale or distribution thereof and may not be offered or sold to anyone unless there is an effective registration or other qualification relating thereto under all applicable Securities Acts or unless such Member delivers to the Company an opinion of counsel, satisfactory to the Company, that such registration or other qualification is not required. The Members understand that the Company is under no obligation to register membership interests or to assist any Member in complying with any exemption from registration under the Securities Acts.

Executed by the undersigned Member effective as of the date first above written.

N W L.L.C.

BY: Kevin Byrne
ITS: Managing Member

Schedule 1

Member Information

Name	Address	Initial Capital Contribution	Percent Interest
N W L.L.C.	7610-40th Street West PO Box 64176 University Place WA 98466		100%

Schedule 2

Allocation methods under Code Section 704(c)
with Respect to Contributed or Revalued Property

MEMORANDUM NO. _____

AMENDED PRIVATE PLACEMENT MEMORANDUM
NW COMMERCIAL LOAN FUND, LLC

7610-40th Street West
Post Office Box 64176
University Place WA 98464-0176
(253) 565-7255

OFFERING PRICE - $1.00 Per Unit

20,000,000 Profit Participation Units
Total Offering: $20,000,000

NW COMMERCIAL LOAN FUND LLC, a Washington limited liability company (the "Company") was organized to invest primarily in promissory notes secured by mortgages or deeds of trust on commercial real estate in the United States.

Limited Members will be entitled to payment of a cumulative preferred indexed rate of return (the "Yield") which is subject to future adjustment by the Company upon written notice provided at least 90 days prior to the beginning of the calendar quarter during which the adjustment will become effective. (See "The Company and Its Management" and "Yield.")

THIS PRIVATE PLACEMENT TELLS INVESTORS BRIEFLY THE INFORMATION THEY SHOULD KNOW BEFORE INVESTING IN THE COMPANY. INVESTORS SHOULD READ AND RETAIN THIS PRIVATE PLACEMENT MEMORANDUM FOR FUTURE REFERENCE.

	Price to Public	Underwriting Commissions*	Proceeds to Company
Per Unit	$1.00	None	$20,000,000
Total:	$20,000,000	None	$20,000,000

*This Private Placement Memorandum is not underwritten. The Company is offering these securities to the public solely through its Officers and Members on a best-efforts basis. No commissions, fees or other remuneration will be paid in connection with the selling effort.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PRIVATE PLACEMENT MEMORANDUM AND ITS TERMS, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR BY THE SECURITIES DIVISIONS OF THE STATE OF WASHINGTON. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO AGENT OR OFFICER OF THE COMPANY OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THE PRIVATE PLACEMENT MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.

THIS PRIVATE PLACEMENT MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PRIVATE PLACEMENT MEMORANDUM HEREUNDER SHALL UNDER ANY CIRCUMSTANCES

THE UNITS OFFERED IN THIS PRIVATE PLACEMENT MEMORANDUM ARE OFFERED ONLY TO ACCREDITED INVESTORS, AS THAT TERM IS DEFINED IN WAC 460-44A-501, AND PURSUANT TO WAC 460-44A-504, AND RULE 147 OF THE SECURITIES AND EXCHANGE COMMISSION OF THE UNITED STATES

The date of this Amended Private Placement Memorandum Is July __, 1999.

TABLE OF CONTENTS

I. SUMMARY

A. General Comments.

NW Commercial Loan Fund, LLC (the "Company") is a Washington limited liability company formed on May 11, 1998.

This Memorandum sets forth the investment objectives and method of operation of the Company, the principal terms of the Limited Liability Company Operating Agreement (the "Agreement") and certain other pertinent information. However, this Memorandum does not set forth all the provisions and distinctions of the Agreement that may be significant to a particular prospective Investor. Each prospective Investor should carefully examine this Memorandum, the Agreement, and the Subscription Agreement in order to assure that the terms of the Agreement and the Company's investment objectives and method of operation are satisfactory to him or her.

Prospective Limited Members are invited to review any materials available to the General Manager relating to the Company, the proposed operations of the Company and any other matters regarding this Memorandum. The Company's legal counsel has furnished the Company with an opinion as to the treatment of the Company as a partnership for federal income tax purposes. All such materials will be made available at the office of the Company at 7610-40th Street West, Post Office Box 64176, University Place, Washington, 98464-0176, at any reasonable hour after reasonable prior notice. N W L.L.C., the General Manager, will afford prospective Limited Members the opportunity to ask questions of and receive answers from the General Manager concerning the terms and conditions of the offering, and to obtain any additional information to the extent that the General Manager or the Company possesses such information or can acquire it without unreasonable effort or expense.

Purchase of Units of interest in the Company (the "Units") should be considered a speculative high risk investment and is not intended as a complete investment program. Investment in the Company is designed only for sophisticated persons who are able to bear a substantial loss of their capital contributions in the Company.

B. Fund Purpose.

The Company is a limited liability company formed under the laws of the state of Washington for the purpose of investing and trading primarily in (1) promissory notes secured by mortgages or deeds of trust on commercial real property in the United States in accordance with the proposed investment objectives and restrictions set forth in this Memorandum and the Operating Agreement. Admission as a Limited Member in the Company is not open to the general public.

C. Minimum Purchase.

The minimum initial investment for a Limited Member is $25,000, unless the General Manager, in its discretion, elects to permit smaller investments in particular cases.

D. Investment Objectives And Strategies.

The investment objective of the Company is to generate interest income and capital gains while preserving the original invested capital. The Company will attempt to achieve long term capital growth by encouraging Interest Holders to accumulate earnings as additional units in their capital accounts for reinvestment by the Company. However, Interest Holders for whom current income is an objective will be permitted to withdraw earnings quarterly.

E. General Manager.

The General Manager of the Company is N W L.L.C. (the "General Manager"), a ... liability company which was formed in 1996.

The General Manager will have exclusive power and authority with respect to the administration of the Company and all aspects of the Company's investments.

F. Plan Of Distribution.

The units are being offered on a "best efforts" basis. Units will generally be sold directly by the Company. Neither the Company nor the General Manager will receive commissions or other compensation for sales made in this manner.

The Company reserves the right, in certain situations, subject to all applicable laws, to compensate registered broker-dealers or registered investment advisors who introduce prospective Limited Members to the Company. Such compensation shall be in amounts which the General Manager deems reasonable and appropriate. In no case will such compensation be charged against a Limited Member's capital account. Any broker-dealer or investment advisor compensated for making such introductions shall be a member of the National Association of Securities Dealers, Inc., or other appropriate regulatory body, and registered as a broker-dealer or investment adviser as required in any state in which Interests will be offered. (See "Terms of the Offering.")

G. Timing Of Investments.

Units may be invested monthly. (See "Contributions and Withdrawals of Capital.")

H. Timing Of Withdrawals.

Units may be withdrawn at the end of any calendar quarter by the redemption of units, on written notice of the General Manager provided at least 60 days prior to the end of the quarter.

I. Timing Of Withdrawals,Reports To Interest Holders.

Each Interest Holder will receive quarterly reports of performance, quarterly capital account statements, audited annual financial statements and necessary tax information.

J. Participation by the Members in Company Earnings.

The Limited Members will be entitled to receive, as their share of Company cash available for distribution, the lesser of (1) 99% of the Company's cash available for distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield"), compounded and payable quarterly, calculated as a percentage of each Limited Member's Adjusted Capital Contribution as defined in the Operating Agreement. The Yield is defined as an annual rate which is initially 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15 year GNMA securities (the "GNMA Rate") as published from time to time in *The Wall Street Journal*. It is adjustable from quarter to quarter on ninety days advance written notice by the Fund, (See, "The Company and Its Management-The Yield.")

After payment of all amounts due the Members, including amounts for redemption of Units for which timely notice of redemption was given, the Members will be entitled to receive, as their residual participation, all Company Cash Available for Distribution to the extent they exceed the amounts to which the Limited Members are entitled, and to the extent payment thereof does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization required by the Operating Agreement. The Members will be entitled to receive payments of their participation on a quarterly basis. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

K. Expenses.

The Members will pay on behalf of the Company, in consideration of their
all expenses relating to offer

professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses, will also be expenses paid by the Members.

II. THE FUND AND ITS MANAGEMENT

A. The Fund.

NW Commercial Loan Fund, LLC, is a limited liability company formed and organized under the laws of the state of Washington on May 11, 1998. The Company commenced business in May 1998. Although the Company is not an investment company subject to registration under the provisions of the Investment Company Act of 1940 (the "Act"), it engages in investment activities which would qualify it, were it not exempt from the Act, as an "open-end nondiversified[1] management company" as defined in the Act. The General Manager will restrict the total number of Members and Limited Members to 225 or fewer and will offer the units only through non-public transactions in order to maintain the Company's exemption from "investment company" status under the Act.

B. The Yield.

The Company will pay each Limited Member a cumulative preferred rate of return (defined hereinabove as the "Yield") on the Limited Member's units invested. The Yield is initially defined as 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15-year GNMA securities as published from time to time in *The Wall Street Journal*.

The Yield will be payable quarterly and may be adjusted quarterly in the discretion of the General Manager, subject to the requirement that Limited Members be given adequate advance notice (90 days prior to the beginning of the quarter during which the adjustment will become effective) of any adjustment and an opportunity to redeem their units prior to the effective date of the adjustment.

The General Manager shall also be entitled to transfer from the Company to the Members, as an additional amount of its residual participation, any Surplus Cash or Mortgages held by the Company after payment of all current and accrued Yield. For purposes of the Operating Agreement, "Surplus Cash or Mortgages" is defined as the amount of cash or Mortgages in the Company's portfolio which is in excess of the Minimum Portfolio Capitalization.

The Yield will be cumulative. If the Yield is not paid for a particular quarter, the amount not paid will be accrued and paid in the following quarter or in the next quarter for which the Company has funds available for payment, together with compounded returns on the accrued Yield at the appropriate subsequent Yield rates. Yield will be compounded quarterly, both on funds invested and on accrued and unpaid Yield from prior periods.

The Yield will also be preferred. After payment to the Members of one percent (1%) of all Cash Available for Distribution, Limited Members will be entitled to payment of all Yield for the current quarter and Yield accrued but unpaid for any previous quarters before any additional payments of Company earnings are made to the Members.

C. Participation in Company Earnings by the Members.

The Members will be entitled to one percent (1%) of all Cash Available for Distribution, paid quarterly. After payment to the Limited Members of the current Yield and all accrued but unpaid Yield from any previous

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[1] The Act defines a "diversified company" as "a management company which meets the following requirements: at least 75% of the value of its total assets is represented by cash and cash items (including receivables), government securities, securities of other investment companies, and other securities for the purposes of this calculation limited in respect of any one issuer to an amount not greater in value than 5% of the value of the total assets of such management company and to not more than 10% of the outstanding voting securities of such issuer."

quarters, and after all redemptions of units for which timely request has been received have been fully funded and paid, the remaining Cash Available for Distribution of the Company shall be paid to the Members as their residual participation, subject only to the Minimum Portfolio Capitalization requirement specified in the LLC Agreement. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

D. The Members and the General Manager.

The Member of the Company is N W L.L.C. N W L.L.C. is a Member and is the General Manager of the Company. N W L.L.C. is a limited liability company organized under the laws of the laws of the state of Washington, is domiciled in University Place, Washington, and commenced operation in 1995. N W L.L.C. is primarily engaged in the origination and sale of commercial loans.

The General Manager has full ultimate authority to conduct the business of the Company, including the making and execution of all investment decisions. The Company's performance depends to a great extent on the ability of the General Manager to manage the Company's assets.

The Investment Committee of the Company is comprised of two of the corporate officers of N W L.L.C. The education and experience of these officers are as follows:

Kevin M. Byrne, 41, is the Chief Executive Officer of the N W L.L.C. Prior to his employment with the N W L.L.C., Mr. Byrne was the Chief Executive Officer of Northwest Community Bank in Tacoma, Washington having held that position since 1990. Prior to that he was a commercial loan officer at Key Bank in Tacoma, Washington. Prior to that time, he was a loan officer at Puget Sound National Bank also in Tacoma, Washington.

Kerry Keely, 43, a Senior Vice President of NW L.L.C., has left the Company.

Robert Coleman, 53, is the President of NW L.L.C. and will assume Mr. Keely's responsibilities on the Investment Committee. Mr. Coleman is also Vice President and Treasurer of NW Funding BR Corp. and a participant in NW Funding L.L. C., both wholly owned by NW L.L.C. Formerly, Mr. Coleman was President of Northwest Community Bank. He has been in the banking business for over 30 years.

III. INVESTMENT OBJECTIVES AND POLICIES

A. General Objectives.

The objective of the Company is to generate consistent and attractive levels of interest income and capital gains by investing in and actively managing a portfolio of Mortgages. The Company will aim to preserve the Members' and Limited Members' original invested capital while generating long-term capital growth for those Limited Members who choose to reinvest their earnings. The Company will make earnings available quarterly for those Limited Members who place a priority on current income.

B. Investment Policy.

The Company's investment policy reflects a philosophy which concentrates on achieving attractive rates of return while experiencing acceptable levels of risk. The Company expects that at least 65% of the Company's assets will be invested in commercial loans that are of A or B quality. The Company may invest up to 35% of its assets in higher risk commercial loans, including "hard money" loans.

The Company does not intend to use borrowed funds to achieve leverage in investing in Mortgages, nor will the Company purchase options or engage in short selling or hedging of Mortgage investments.

$5,000,000. The Company will permit investments in short-term assets based on evaluation of risk. For purposes of this Memorandum, "long term" assets are assets typically held for approximately one year or more, which "short term" assets typically are held approximately less than one year.

In evaluating Mortgages for investment, the General Manager will follow general guidelines, subject to waiver or exception only in a limited number of instances. The general guidelines are as follows:

(1) Property Types.

The Company will generally invest in Mortgages on commercial real estate in the United States. The Company will loan money on many property types to create diversification. Principally, the underlying collateral will be income producing types such as office, retail, warehousing, multi-family housing, mobile home parks, and healthcare. Underwriting will review total income, future income, and position the collateral holds in the market. Non-income producing projects will generally not be underwritten, except that the Company is specifically authorized to invest in construction loans. Collateral that is not commercial real estate maybe taken as extra collateral (i.e., home, equipment, etc.).

(2) Priority of Mortgages.

The Company will primarily invest in Mortgages in not less than a first lien position—deeds of trust and mortgages. Provided, however, the General Manager have the discretion to invest in mortgages which are in a lower lien position if the General Manager determine such investment to be appropriate for the Company.

(3) Investment to Value Ratios.

The Company will generally invest in Mortgages which provide adequate protection for the Company's equity interest in the underlying real estate. Loan to values will not generally exceed 75% of value in "A" and "B" borrowers and 65% in "hard money" borrowers.

(4) Property Value Determination.

The General Manager will generally determine value of the real property underlying a Mortgage by using as many valuation factors as the General Manager believes are appropriate for a given property, including, without limitation, last sale price and date, assessed value, appraised value, and property value index for a specific region.

(5) Credit History.

The Company will generally not invest in Mortgages in default. The General Manager will maintain a computer link to Equifax Credit Services or other comparable credit reporting agency for checking and monitoring creditworthiness of debtors on Mortgages. The General Manager will also review county records to determine that property taxes are current. Adequate insurance will generally be required on properties.

(6) Title Insurance.

The Company will generally purchase a lender's policy of title insurance, or an endorsement to an existing policy, on each Mortgage acquired.

(7) Purchase of Mortgages from Members.

The Company expects that ...

(8) Exceptions.

One or more of the investment policy guidelines adopted by the Fund may be waived in exceptional situations where the General Partner determines that a Mortgage is appropriate for the Fund's portfolio even though it does not conform to all policy guidelines. In no event, however, will the General Partner permit more than ten percent (10%) of the Fund's assets to be invested in such nonconforming Mortgages.

C. Minimum Portfolio Capitalization.

The General Manager shall use its best efforts to maintain at all times a portfolio of cash and performing Mortgages (the "Minimum Portfolio Capitalization") the value of which is greater than or equal to 115% of the value of all outstanding Units of the Company and all accrued but unpaid Yield, each unit being deemed to have a value of One Dollar ($1.00). The General Manager shall determine the value of any Mortgages held by the Company, for purposes of establishing Minimum Portfolio Capitalization, by calculating the aggregate remaining principal balance outstanding on all Mortgages, without premium or discount based on interest rates then prevailing, collectability of the Mortgage obligation, or any other factors. It is the intent of the Company and the General Manager that the Minimum Portfolio Capitalization will generate sufficient income to pay the Yield and any earnings due the Members, and to provide available assets for the redemption of any Units for which redemption requests are received by the Company. If, at any time, the Company does not maintain its Minimum Portfolio Capitalization, the Member will receive not receive any of its residual share of the Company's Cash Available for Distribution until the Company can once again meet and maintain its Minimum Portfolio Capitalization requirements.

D. Not A "Tax Shelter."

The investment objectives of the Company do not include the production of tax deductions and tax credits which would reduce an Interest Holder's taxable income or the tax liability thereon from other sources for tax purposes. (See "Federal Income Tax Considerations" and "Risk Factors - Certain Tax Related Risks.")

E. Company Expenses.

The General Manager is authorized to incur all expenses on behalf of the Company which they deem necessary or desirable. The organizational expenses of the Company (including expenses of the original offer and sale of units), will be paid by the Members.

The Member will pay on behalf of the Company, in consideration of its participation in Company profits, all expenses relating to office space, equipment, supplies, telephone, salaries of in-house personnel, servicing, escrow and recording of transactions, the purchase, sale, trade, custody, transfer, or insurance of Company assets and other services which are part of the day-to-day administration of the Company, including expenses for third-party professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses, will also be expenses paid by the Member.

IV. TERMS OF THE OFFERING

The Company is soliciting total capital contributions up to $20,000,000. The minimum subscription is $25,000, although the General Manager reserves the right to waive this requirement in particular cases. Units subscribed will be received for investment on the first business day of each month.

A. Price Of Interests.

The Limited Members making a capital

B. Expenses Of The Offering.

Legal, accounting, and printing costs, administrative filing fees, and organizational expenses accrued in connection with the continuing offering of Units will be paid by the Member.

C. Duration Of Offering.

This offering shall remain open until the maximum subscriptions have been received, or until the Member elects to terminate the offering, whichever is earlier. There is no minimum offering requirement.

D. Plan Of Distribution.

Subscriptions for Units in the Company are being solicited on a best efforts basis by the Member, who will receive no commission for its services in connection with the offering. Capital contributions should be made by cash, certified check or electronic funds transfer, on or before the beginning of each fiscal period.

The Member reserves the right, at its expense, to compensate one or more registered broker dealers or registered investment advisors who introduce prospective Limited Members to the Company. Such compensation, when and if paid, shall be limited to amounts which the Member considers reasonable and appropriate. In no case shall such compensation be charged against a Limited Member's interest or participation in the Company. Any broker-dealer or investment advisor compensated to make such introductions shall be a member of the National Association of Securities Dealers, Inc. or other appropriate regulatory body and registered as a broker-dealer or investment advisor as required in any state in which Units will be offered.

The Units being offered pursuant to this Memorandum have not been registered with the Securities and Exchange Commission or the securities administrator of any state, but are offered pursuant to federal and state exemptions for nonpublic offerings. (See "Who Should Invest.")

The Units are suitable for investment only by qualified individuals and institutions which do not need liquidity with respect to their investments and are capable of assuming the risks associated with the Company's investment program. Some of the Company's investment practices, by their nature, should be considered speculative and to involve a substantial degree of risk. There are special considerations for pension and other retirement plan investors in the Company. (See "Who Should Invest-Investment by Qualified Pension, Profit Sharing and Stock Bonus Plans and Individual Retirement Accounts.")

E. To Become A Limited Member.

To become a Limited Member, an investor meeting the requirements set forth in this Memorandum (see "Who Should Invest") must sign a Subscription Agreement and Special Power of Attorney in the form provided by the Company and provide funds by electronic funds transfer or check in the amount of the subscription to the Company for the investor's Capital Contribution. Instructions for electronic transfer of funds may be obtained from the offices of the Company. The General Manager has the discretion to accept contributions by methods other than electronic funds transfer, under exceptional circumstances. Funds will not be invested, and no Yield will accrue with respect thereto, until such funds are "collected" and available to the Company.

In order to permit the Fund to comply with federal and state securities laws, prospective investors will also be required to fill out and sign a "Purchaser Questionnaire" in the form provided by the Company, and purchaser representatives of those prospective investors who utilize a purchaser representative will be required to fill out and sign a "Purchaser Representative Questionnaire." The information provided by offerees or purchaser representatives in these questionnaires will be maintained as confidential to the fullest extent possible, and it is not intended [illegible] information will be forwarded to any government

F. Approval by the General Manager of all Investments by Limited Members.

The General Manager reserves the right not to admit any proposed Limited Member prior to the acceptance of his or her subscription.

All funds received by the Company from prospective Limited Members will be deposited in trust in an FDIC-insured bank account or invested in secured short-term obligations of the Member pending acceptance for investment by the Company. The Company will incur no liability to pay the Yield on any funds received until the Company has accepted the funds for investment in Mortgages. Until that time, the prospective Limited Member is entitled to receive a refund of his or her funds upon written request and upon three (3) days notice to the General Manager. Funds so returned shall include all interest earned on them while on deposit or invested in trust.

Each prospective Limited Member is invited to meet with the General Manager to discuss with, ask questions of, and receive answers from it concerning the terms and conditions of this offering of Units. The prospective investor may want to obtain additional data that would verify the information contained herein. To the extent the Company possesses such information or can acquire it without unreasonable effort or expense it will be supplied.

No offer shall be considered to have been made by the General Manager until a fully completed set of Subscription documents has been received and approved by the Member.

V. WHO SHOULD INVEST

Investment in the Units offered hereby involves a high degree of risk. The investment will have limited liquidity, no public market for the Units is expected to exist, and the sale or transfer of Units is severely restricted.

Although Limited Members will be entitled to a Yield on their funds invested which is cumulative and preferred over any participation of the Member, there can be no guarantee that the Company will always generate sufficient income to pay the Yield. The Company will follow an investment policy which, if unsuccessful, could involve significant losses. Investment in the Units is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment.

A. Accredited Investors.

The Units will be offered and sold only to "accredited investors" as that term is defined by the federal securities laws. There is no limitation on the number of "accredited investors" except that the total number of Limited Members and Members must be 100 or less to qualify for an exemption from the Investment Company Act of 1940. "Accredited investors" are defined as follows:

(a) Any bank as defined in section 3(a)(2) of the Securities Act of 1933 (the " 1933 Act") or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the 1933 Act whether acting in its individual or fiduciary capacity; any broker/dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; insurance company as defined in section 2(13) of the 1933 Act; investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company. or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000; or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;

(b) Any private business development company [illegible] Act of 1940

(c) Any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business Trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

(d) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

(e) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his or her purchase exceeds $1,000,000;

(f) Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(g) Any trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment; or

(h) Any entity in which all of the equity owners are accredited investors.

The above restrictions conform to regulations promulgated by the Securities and Exchange Commission and the Washington State Securities Administrator. Any offers or sales made outside the state of Washington may be required to conform to different standards, and the sale of interests in other states may also affect the suitability standards to be applied in the state of Washington.

Any investor having any question regarding suitability standards or any other aspect of the offering should contact Kevin Byrne, Manager-Member of N W L.L.C. at (253) 565-7255. The General Manager reserves the right to accept or reject any subscription, in its sole discretion.

Units in the Company are offered in reliance upon state and federal exemptions from registration for nonpublic offerings, and the Company will not be registered under the Investment Company Act of 1940. Each prospective investor will be required to satisfy the suitability standard referred to above and to represent that he or she:

* is investing in the Fund for his or her own account, for investment purposes only, and not with a view to distribution;

* is a sophisticated investor (or has a qualified purchaser representative) capable of evaluating the risks and merits of an investment in the Fund;

* has had access to sufficient information needed to make an investment decision about the Fund;and

* can tolerate the illiquidity which is characteristic of limited partnership interests in general and these Units in particular.

Additional suitability requirements or restrictions on investment may be applicable under the laws of certain states in which the Units may be offered.

B. Investment By Qualified Pension, Profit Sharing And Stock Bonus Plans And Individual Retirement Accounts.

Partners must comply with complex fiduciary and tax requirements imposed by the Department of Labor ("DOL") and the Internal Revenue Service ("IRS"). THIS LIMITED DISCUSSION IS NOT INTENDED TO SUBSTITUTE FOR THE ADVICE OF INDEPENDENT, QUALIFIED LEGAL COUNSEL.

A fiduciary considering investing a portion of the assets of a Qualified Plan in the Fund should take into account the particular facts and circumstances of such plan, and should consider among other things: (i) whether the relevant plan instruments permit investing in a limited liability company; (ii) the definition of plan assets under ERISA and the application of DOL regulations; (iii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA; (iv) whether under Section 404(a)(1)(B) of ERISA, the investment is prudent, considering the nature of the investments of the Fund, its compensation structure, and its relative illiquidity; and (v) whether the Fund or the General Manager or any of its affiliates is a fiduciary or a party in interest to the Qualified Plan.

Regulations Concerning "Plan Assets"

Section 406 of ERISA and Section 4975 of the Internal Revenue Code (the "Code") prohibit certain transactions involving "plan assets" of employee benefit plans subject to Title I of ERISA or of any other retirement plan subject to Code Section 4975, such as an IRA. (Any such plan is referred to below as a "plan"). Neither the Code nor ERISA defines the term "plan assets."

In regulations published by the U.S. Department of Labor effective March 13, 1987 (the "Plan Regulations"), an investment by "Benefit Plan Investors" in a limited partnership is not generally considered to be an investment in the underlying assets of the partnership but in the limited partnership interest itself, if, among other things, equity participation interests held by such investors in the partnership are not "significant" as defined in the Plan Regulations, or if the partnership qualifies as an operating company as defined in the Plan Regulations. Benefit Plan Investors are defined in the Plan Regulations to include: all employee benefit plans as defined in Section 3(3) of ERISA, regardless of whether any such plan is subject to Title I of ERISA; any plan described in Section 4975(e)(1) of the Code; and any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. It is expected that the IRS would accord the same treatment to limited liability company investments.

Under the Plan Regulations, participation by Benefit Plan Investors is "significant" on any date if, immediately after the last acquisition, 25% or more of the value of any class of equity interests in the entity (disregarding the holding of the Members or their affiliates other than Benefit Plan Investors) is held by Benefit Plan Investors. The General Manager intends to limit the participation in the Company by Benefit Plan Investors to the extent necessary so that participation by Benefit Plan Investors will not be "significant" within the meaning of the Plan Regulations. Therefore, it is not expected that Company assets will constitute "plan assets" of plans that acquire Units.

Although not expected, if for any reason Company assets were deemed to constitute plan assets: (1) an ERISA Partner's investment in the Units might constitute an improper delegation of fiduciary responsibility to the General Manager and expose the Plan fiduciary to co-fiduciary liability under ERISA for any breach by the Limited Members of any ERISA fiduciary duties; (2) an IRA's investment in the Units might result in an impermissible commingling of plan assets with other property; and (3) the risk of a plan engaging in a prohibited transaction would be increased. Further, a prohibited transaction involving an employee benefit plan could subject a disqualified person to an excise tax and to certain remedial measures imposed by ERISA; a prohibited transaction involving an IRA could result in its disqualification with resulting tax to its beneficiary.

Unrelated Business Taxable Income

Qualified Plans are generally exempt from federal income taxation under the Code. However, Qualified Plans are subject to federal income taxation to the extent they have any "unrelated business taxable income" (as determined in accordance with Sections 511-514 of the Code).

income, and capital gains on Mortgage investments, to the extent not "debt financed," are generally exempt from UBTI. (See "Federal Income Tax Considerations-Unrelated Business Taxable Income".)

Fiduciaries should consult their own tax advisors regarding the federal income tax consequences of investing assets of an exempt organization in the Company.

THE FOREGOING DISCUSSION IS MERELY A SUMMARY OF ISSUES A PLAN FIDUCIARY SHOULD EVALUATE WHEN CONSIDERING AN INVESTMENT IN THE FUND. PLAN FIDUCIARIES ARE URGED TO CONSULT THEIR LEGAL ADVISORS BEFORE INVESTING PLAN ASSETS IN UNITS OF THE FUND.

Required Provisions

ERISA investors should be certain that trust agreements allow for investment as a Limited Member in a limited liability company, ERISA Partners are required to furnish a copy of the plan's trust agreement to the General Manager with its subscription documents; however, the General Manager takes no responsibility for assuring that this investment complies therewith. ERISA Plan trustees will also be required to represent to the General Manager that they have reviewed this Memorandum and that they have the authority to invest in the Company.

VI. CONTRIBUTIONS AND WITHDRAWALS OF CAPITAL

A. Admission Of Limited Members And Additional Capital Contributions.

The General Manager may, in its discretion, admit additional Limited Members to the Company, or accept additional capital contributions from existing Limited Members at any time during the Company's fiscal year. Capital contributions shall be made by electronic funds transfer unless the General Manager, in its discretion, permit another method of contribution.

B. Contributions.

Capital may be contributed to the Company by Limited Members effective, under ordinary circumstances, as of the beginning of any calendar month.

C. Withdrawals.

A Limited Member may withdraw all or a part of his or her capital at the end of any calendar quarter, provided that written notice of such withdrawal is given to and actually received by the General Manager at least 60 days before the end of that quarter.

Payments of withdrawals will be made as soon as practicable after the withdrawal date; however, the General Manager has the right to delay payments in extraordinary circumstances.

VII. TRANSACTIONS WITH MANAGEMENT

A. Purchases and Sales of Mortgages with Affiliates.

The Member and its affiliates will be a primary source of supply for the Company in acquiring new Mortgages for its portfolio. There may also be times when the Member or one of its affiliates acquires a Mortgage from the Company in order to provide the Company with liquidity. The Member will not be entitled to receive a commission or other compensation at the time its sells a Mortgage to the Company or finds a Mortgage investment by the Company, which the G

Company, the General Manager may be considered to have a technical conflict of interest to the extent they sell a Mortgage to or buy a Mortgage from the Company. However, the objective valuation methodology adopted by the Company minimizes the risk of an actual conflict of interest in valuing the Mortgages.

The General Manager will use its best efforts to avoid an actual conflict of interest in its purchase and sale decisions. It will adopt a general methodology which will calculate the value of any Mortgage as its total remaining principal balance due.

B. Investments By Affiliates.

From time to time, the General Manager/Members may accept as Limited Members in the Company certain affiliated entities.

C. Other Responsibilities of the General Manager.

The individuals who comprise the executive officers and members of the General Manager are continually faced with demands on their time other than those of the Company and may devote time to other businesses with which they are affiliated. Their devotion of time and energy to other matters may be perceived as a conflict of interest, but will not diminish their responsibilities as fiduciaries of the General Manager.

VIII. RISK FACTORS

An investment in the Company involves risks not associated with other investment alternatives. Prospective investors should carefully consider, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with investment in the Company.

A. Business Risks.

1. Limited of Experience of General Manager. The General Manager and its affiliates have invested in Mortgages for their own accounts in the past. N W L.L.C. has originated and invested in Mortgages for its own account since 1995. Notwithstanding that experience, there can be no assurance that they will be successful in implementing the policies, objectives and strategies described herein. An investment in the Company should be considered to involve a high degree of risk and the investor must be willing and able to weather periods in which the Company pays little or no returns on investment.

2. Reliance on Key People. Kevin Byrne and Kerry Keely, employees of N W L.L.C., will be responsible for providing administrative and executive management services to N W L.L.C. with respect to certain services it will provide for the Company. If either of these people are unable, for any reason, to discharge their duties, the Company might sustain losses, experience a reduction in its returns on investment, or incur delays in liquidating its investment.

3. General Economic Conditions. The success of any investment activity is necessarily affected by general economic conditions, which may affect the level and volatility of interest rates, the values of real estate underlying deeds of trust, mortgages and sellers' interests in real estate contracts, and the capacity of a borrower on a promissory note secured by real property to pay the debt promptly in accordance with the terms of the obligation. There is a risk that adverse general economic conditions could affect the profitability of the Company and its ability to pay the Yield.

4. Concentration of Investments in Certain Geographic Regions. At least during its initial years, the Company will tend to concentrate its investments in Mortgages on properties located in a few western [illegible] as Washington, Oregon, and Idaho. Real estate markets and values in th[illegible] characteristic of each local

5. Lack of Liquidity. There is no public market to provide liquidity for the Units, and no market is expected to develop. The Company will be the only source of liquidity for the Limited Members, and it is possible that the Company might not be able to liquidate its investments promptly or that there might be more demands for redemption than the Company could redeem at any one time, causing the Company to incur delays or losses in liquidating the Limited Members' investments. Limited Members should expect that the Units will continue to have very limited liquidity.

6. Borrower Defaults. Borrowers and purchasers who are obligated under the Mortgages in which the Company will invest are often persons who do not qualify for conforming or federally guaranteed bank financing and may generally be regarded as higher risk borrowers, with an increased risk of default in payment of the obligations.

7. Value of Security Dependent on Property Value. There is no guarantee that the proceeds from the sale of the real property securing an investment in a Mortgage will be sufficient for the Company to recover its original investment and interest which would have been received absent any default. The Mortgage merely gives the Company the right to acquire or sell the property in the event of a default; the amount recovered by the Company at the time of the sale depends upon the price at which the property was sold and the amount of costs and other expenses which the Member must incur in connection with the foreclosure and sale. In the event of a default, the General Manager will undertake certain actions on behalf of the Company to collect the remaining balance, to sell the Mortgage, or to foreclose on the real property security of the Mortgage. There can be no guarantee that these efforts will be successful or cost effective. Although the General Manager will seek to avoid the risk of being under-collateralized by reviewing relevant appraisals, comparables, tax assessment records, and other evidence of property values prior to investing in any Mortgages, there can be no assurance that these sources will provide accurate information or that the value of the property will not decrease. Additionally, prospective Limited Members should be aware of the possibility of occurrences which could have an adverse effect on property values, such as rezoning, neighborhood changes, highway or airport relocations, discovery of hazardous materials, or failure to maintain the property.

8. Limitation on Returns to Limited Members. The Company has made a commitment to pay the Yield to Limited Members, as an adjustable, cumulative preferred rate of return on investment. Should the Company achieve spectacularly favorable results as a result of its investment strategies, the Limited Members will still share in the Company's profits only to the extent of the Yield, while the Member will receive the extraordinary profit. By the same token, if the Company performs poorly, the Limited Members will be entitled to be paid the Yield and any accrued and unpaid Yield before the Member receives any returns from the Fund at all. Therefore, the Limited Members must be prepared to accept some limitations on their potential upside returns in consideration of their being protected from some of the downside risks of the Company's investment results.

9. Investor Suitability; No Guarantee of Investment. Units should be purchased only by persons who, alone or with the assistance of their independent advisers, are capable of evaluating the merits and risks of an investment in Mortgages. An investor should have sufficient financial means so that he or she can afford an indefinite delay in the recovery of, and the possible loss of, all or a portion of his or her investment. Although the Fund will generally invest only in investments which it deems appropriate, the Fund does not guarantee any investment. The Fund's governing agreement provides only that the Yield payable to Limited Members is cumulative and will be paid before and in preference to any participation payable to the Member for a specified time period.

10. Fund Liability for Third Party Claims. As a result of investing in Mortgages, the Company may be subject to liability to various third parties. The ownership, operation or, possibly, holding of a mortgage or deed of trust against property on or near which hazardous substances have been discovered may subject the Company to substantial liabilities under laws and regulations pertaining to hazardous waste. In addition, as a result of certain actions taken with respect to a Mortgage, the Company could be subject to liability to a borrower, trustee, or others under various theories.

11. Insurance and Casualty Loss. It is the policy of the Company to require fire and/or casualty insurance on property improvements which would be sufficient together with the value of the land to pay off all obligations including the Mortgages. There are certain disasters, however, for which no insurance is available or for which the insurance is too expensive. The Company has no control over the borrower's actions or the state of the property which might reduce available coverage, call for economically prohibitive premiums, or render the property uninsurable. In addition, if insurance coverage lapses because premiums are not paid, or a policy is canceled for other reasons, the Company may not be protected unless substitute or new insurance is in force and the Company may be required to pay premiums to maintain such insurance.

B. Risks In Limited Liability Company Structure.

1. Lack of Control. Limited Members will have no right to participate in the management of the Company or in the conduct of its business.

2. Discretion of General Manager. The General Manager has discretion to invest any amount of the assets of the Company in any Mortgages it deems appropriate at any time. The General Manager cannot guarantee the performance of the investments chosen. Accordingly, no person should invest in the Company unless he or she is willing to entrust all aspects of the management of the Company and its investments to the General Manager.

3. Member's Nonliability. Under the Operating Agreement, the Member is not liable to the Company or to the Limited Members for any claims or losses caused by acts performed by it or for any failure to act, except those directly attributable to the Member's own fraud, gross negligence, or willful disregard of duty, and under certain circumstances, the Member will be entitled to indemnification from the Company. It is the policy of the United States Securities and Exchange Commission that indemnification for securities law violations is against public policy and therefore unenforceable.

4. Reliance on the Member. The success of the Company is largely dependent upon the efforts of the Investment Committee, members of which are officers of the General Manager. Although they devote a significant amount of their time to the interests of the Company, they also engage in other business activities including certain activities which are similar to those of the Company. The death or disability of any of such persons, or the failure of such persons to remain as officers of N W L.L.C. would likely have a material adverse effect on the operations of the Company.

5. Lack of Registration. The Units offered pursuant to this Memorandum have not been registered under the Securities Act of 1933 or the securities laws of any state or will they be so registered by reason of specific exemptions under the provisions of such Act and laws which depend, in part, upon the investment intent of each investor. Each Limited Member will be required to represent that he or she is purchasing Units for his or her own account and not with a view toward resale or distribution. Neither the Company nor the General Manager has any plans nor has assumed any obligation to register these Units. Accordingly, the Units may not be transferred in the absence of an opinion of counsel to the Company that the transfer will not involve a violation of the registration requirements of the Securities Act. Ordinarily, this means that transfers will be restricted to instances of death, gift, or passage by operation of law. These restrictions on transfer are in addition to those found in the Operating Agreement.

6. Restriction on Liquidity, Transfers of Company Units and Redemptions. An investment in the Company involves substantial restrictions on liquidity and Units are not freely transferable. There is no market for Units of the Company, and no market is expected to develop. Consequently, Limited Members will be unable to redeem or liquidate their Units except by withdrawing from the Company in accordance with the Operating Agreement. Limited Members may be unable to liquidate their investment promptly [illegible] or for any other reason. Although [illegible]

7. No Independent Counsel. No independent counsel has been retained to represent the interests of the Limited Members. The Operating Agreement has not been reviewed by any attorney on behalf of the Limited Members. Each investor is therefore urged to consult his or her own counsel as to the terms and provisions of the Operating Agreement and in all other documents related thereto.

8. Conflicts of Interest. The interests of the investors may be inconsistent in some respects with the interests of the General Manager. However, the fiduciary obligations of the General Manager requires that it exercise good faith and integrity in resolving any conflicts of interest. (See "Transactions with Management.")

C. Certain Tax Related Risks.

1. Tax Classification of the Limited Liability Company and the Limited Members. A limited liability company is not itself subject to federal income taxes; rather, its members take into account their share of the limited liability company's taxable income, losses, deductions, and credits in computing their federal income taxes. Accordingly, the tax consequences to Limited Members of an investment in the Company will depend upon the federal income tax classification of the Company as a "partnership," and not as an association taxable as a corporation. Several factors are determinative of this status, and the failure to meet the requirements of the Internal Revenue Code (the "Code") and regulations can result in taxability of the Company as a corporation. Treatment by the Internal Revenue Service ("IRS") of the Company as an association taxable as a corporation, rather than as a partnership could have a material adverse effect on the Limited Members.

Counsel for the Company is of the opinion that the Company is a "non-corporate entity" or "partnership" for federal income tax purposes under the applicable provisions of the Code and the Department of Treasury Regulations (the "Treasury Regulations") as they currently exist. However, counsel's opinion is not binding on, and could be challenged by, the IRS. The Company will not apply to the IRS for a Ruling as to its tax status as a limited liability company, and there is no assurance that a Ruling could be obtained even if requested.

As a practical matter, the participation in Company earnings by the Limited Members will be limited to the Yield. Accordingly, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as equity holders in the Company for federal income tax purposes. Instead, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequences of such a challenge, if successful, could arguably have an adverse effect on the classification of the Company as a partnership for federal income tax purposes, or alternatively on the tax treatment of the Limited Members as holders of debt instruments.

2. Possible Adverse Tax Consequences of Investment. The federal income tax consequences to the Interest Holders of an investment in the Company depend, in large part, on the particular strategies employed and on the length of time assets are owned, as well as the tax treatment of various items and activities under the Code, which changes frequently. While the General Manager will attempt to optimize the tax results of the Company's activities, its primary objective is to achieve an economic gain. The mix of ordinary and capital gains or losses may increase the tax liability to each individual Limited Members in excess of the dollar benefits gained from any appreciation of the Company's equity.

While the Company intends to seek advice of legal and accounting professionals in tax matters, there can be no assurance that the positions of the Company as to the tax consequences of its investment strategies will be accepted by the IRS.

3. Tax Liability May Exceed Cash Distribution. Interest Holders are required to report on their federal income tax returns their pro rata share of the Company income, whether or not such income is actually distributed by the Company. It is anticipated that most of the income of the Company will be [illegible] income rates. There is no requirement that the Company

4. Limitation on Deduction of Capital Losses. It is possible, in a taxable year, that a Limited Member may be allocated a pro rata share of Company capital losses as well as a pro rata share of Company ordinary income. In such case, because of the federal income tax limitations on the deductibility of capital losses, a Limited Member may realize taxable income from the Company, although from an economic standpoint the Company may have earned no profit or operated at a loss.

5. Limitation on Deduction of Passive Losses. It is possible that a Limited Member may have passive losses and portfolio income. Section 469 of the Code, introduced by the 1986 Tax Reform Act, may suspend such losses while the Limited Member must report all of his or her portfolio income. Due to passive loss limitations under Section 469 of the Code, the Limited Member may be required to report income when he or she actually suffers an economic loss.

6. Limitation on Deductibility of Investment Interest. Because of the limitations under the Code on the deductibility of interest incurred for investment purposes, it is possible that a Limited Member would not be able to deduct all investment interest (for example, if a Limited Member invested with borrowed funds) incurred during the taxable year.

7. Future Federal Income Tax Legislation or Changes in Regulations. The federal income tax laws are the subject of continuing scrutiny and proposals for amendment. In 1997, Congress passed the 1997 Taxpayer Relief Act, which made broad changes to the tax code. Any such new legislation may affect the tax treatment of income to Limited Members. An assessment of the affect of this or any tax law changes must be evaluated by the Limited Members and their tax advisors. Even without additional legislation, the IRS might issue new regulations, possibly with retroactive effect, which could result in a loss of "partnership" status for tax purposes.

IX. FEDERAL INCOME TAX CONSIDERATIONS

The following is intended to summarize certain general principles as to the tax consequences of an investment in the Company. These may vary with the identity and status of the investor as an individual, ERISA plan or other entity. **PROSPECTIVE LIMITED PARTNERS SHOULD NOT CONSIDER THE CONTENTS OF THIS MEMORANDUM AS LEGAL OR TAX ADVICE, BUT SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR INDIVIDUAL TAX CONSEQUENCES OF INVESTING IN THE FUND.**

A. Status As A Partnership.

The tax consequences to the Company and its Interest Holders depend upon the characterization of the Company for federal income tax purposes as either a partnership or an association taxable as a corporation. Although the Company has not requested a ruling from the IRS concerning its tax status, the Company has received an opinion of its counsel that, subject to certain conditions, it is more likely than not that the Company will qualify as a partnership for federal income tax purposes. However, an opinion of counsel will not prevent the IRS from challenging the partnership status of the Company if it determines the Company is more properly taxable as a corporation.

Prior to January 1, 1997, the Internal Revenue Service utilized a "corporate characteristics analysis" to determine whether a limited liability company would be treated as a partnership (not a corporation) for tax purposes. As of January 1, 1997, the IRS adopted certain regulations which allow unincorporated entities to choose whether to be taxed as partnerships or corporations. Under the Regulations, a "business entity" is any entity, for federal tax purposes, that is not a trust. Certain business entities are classified as corporations for federal tax purposes by the Regulations. Limited liability companies are not within that defined category. Under the Regulations, unincorporated domestic business entities formed after the effective date of the final regulations will [illegible] partnerships for federal tax purposes [illegible]

The Omnibus Budget Reconciliation Act of 1987 ("1987 Act") contains provisions that produce adverse tax consequences for publicly traded partnerships. Under the 1987 Act, publicly traded partnerships that were not in existence on December 17, 1987, will be taxed as corporations unless at least 90% of the gross income of such partnerships is "qualifying income" under Section 7704(d) of the Code. "Qualifying income" includes interest, dividends, and gains from the sale or other disposition of securities. The term "publicly traded partnership" is defined for purposes of these provisions as any partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. The General Manager believes that the Company is not a publicly traded partnership under the definition of Section 7704 of the Code because its Units are not traded or readily tradable on any securities market. Furthermore, even if it were determined that the Company is a publicly traded partnership, the General Manager believes that at least 90% of the gross income of the Company will be qualifying income under Section 7704(d) of the Code.

If, for any reason, the IRS instead treats the Company as a corporation for federal income tax purposes, then investors would be taxed as shareholders of a corporation. In such case, the income of the corporation would be taxed at the corporate level at corporate tax rates, and distributions from the Company to investors would be dividend distributions taxable as ordinary income to the extent of current or accumulated earnings and profits and nontaxable as a return of capital to the extent of the investor's basis in his or her Units. Amounts distributed in excess of an investor's basis in his or her Units are taxed as capital gains.

The participation in Company earnings by the Limited Members will be limited to the Yield. Accordingly, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as limited members in the Company for federal income tax purposes. Instead, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequences of such a challenge, if successful, could arguably have an adverse effect on the classification of the LLC as a partnership for federal income tax purposes. Furthermore, Yield payments to the Limited Members should not be subject to double taxation if such Limited Members were treated as holders of debt instruments because even if the Company were classified a corporation for federal income tax purposes, such payments should be treated as deductible interest payments by the Company (whether or not it is treated as a corporation) to the Limited Members.

Although the matter is not entirely free from doubt, notwithstanding the above discussion, in the opinion of counsel, the Limited Members should be treated as equity participants in the Company rather than holders of debt instruments.

B. Tax Consequences To Member and Limited Member.

If, as anticipated, the Company is taxable as a partnership it is not subject to federal income taxes on its income; rather, each Interest Holder is required to report on his or her federal income tax return his or her distributive share of all items of income, gain, loss, deduction and credit of the Company for the Interest Holder's taxable year within which the Company's taxable year ends, regardless of whether the Company makes any actual distribution to the Interest Holders during that year.

As indicated above, since the Yield limitation has certain characteristics of debt, the IRS may challenge the status of the Limited Members as limited partners for federal income tax purposes. Therefore, the IRS may attempt to treat such Limited Members as holders of debt instruments as opposed to equity participants for federal income tax purposes. The consequence of such a challenge, if successful, could arguably have an adverse effect on the tax treatment of the Limited Members. From the perspective of the Limited Members, the potential tax treatment as holders of debt instruments may or may not be adverse as compared to the anticipated tax treatment as an equity limited partner. Interest income received as a holder of a debt instrument would be as treated as portfolio income and as investment income for purposes of the investment interest expense limitation. Thus, all deductions directly connected

as part of the loan terms. For both cash and accrual basis taxpayers, payments received in advance for prepaid interest are income in the year received, provided no restriction has been placed upon the use of those funds. Therefore, even though the accrual method applies overall, prepaid interest will be taxable in the year of receipt.

An Interest Holder may deduct his or her distributive share of the Company's losses (ordinary or capital) only to the extent of his or her adjusted basis in his or her Units of the Company at the end of the Company's taxable year and even then, only to the extent the Interest Holder is "at risk" at the close of the taxable year.

Generally, a Limited Member's initial adjusted basis in his or her Units is equal to his or her cash capital contributions to the Company. An Interest Holder's basis will also be increased by his or her total distributive share of Company income, gain and certain partnership liabilities, and reduced by: (1) his or her total distributive share of Company losses; (2) total Company distributions made to him or her, (3) decreases in the share of Company liabilities previously included in his or her basis; and (4) his or her distributive share of certain other expenditures, i.e., nondeductible company expenditures not properly chargeable to his or her capital account.

A Limited Member will be considered "at risk" to the extent of: (1) that Limited Member's actual contributions to the Company, plus (2) any other amount which he or she has actually risked in the Company (i.e., for which he or she is personally liable or has pledged as security other property not related to this activity), plus (3) the undistributed Company income allocable to a Member, less (4) losses deducted in prior years and Company distributions.

The federal income tax consequences to the Interest Holder of an investment in the Company will depend largely upon the investment activity of the Company and on the length of time Mortgages are owned by the Company.

If the Company recognizes any gains or losses which are ordinary gains or losses, each Interest Holder's allocable share of ordinary gains will be taxed as ordinary income and his or her share of ordinary losses will reduce other income of the Interest Holder to the extent of his or her basis subject to the at-risk and other limitations discussed in this section.

Gains and losses from most transactions in purchasing and selling Mortgages, other than those entered into by dealers in their inventory account, are taxed as capital gains and losses, a portion of which may be taxed as long-term capital gain or loss and a portion as short-term capital gain or loss, depending on the facts involved in the transaction. The Company does not consider itself a dealer in Mortgages and a significant portion of the gain or loss recognized by the Company should be capital gain or loss. Each Interest Holder's allocable share of (a) net long-term capital gain or loss and (b) net short-term capital gain or loss will pass through to the Interest Holder separately. Thus, the tax consequences of capital gains and losses to a Limited Member will depend upon whether the Limited Member has capital gains and losses other than those derived from his or her distributive share of Company capital gains and losses.

In general, an Interest Holder's net short-term capital gain (i.e., the excess of short-term capital gains from all sources over net long-term capital loss from all sources) is taxed at ordinary income tax rates. An Interest Holder's net long-term capital gain (i.e., the excess of net long-term capital gain from all sources over net short term capital loss from all sources) will be taxed at long-term capital gains rates. If an individual Limited Member has a net capital loss (i.e., total long-term or short-term loss from all sources exceeds total long-term and short-term capital gain from all sources), he or she may deduct those losses against other income up to a maximum of the lesser of $3,000 per year or his or her adjusted gross income. Any excess over the $3,000 limitation may be carried over to offset capital gains or ordinary income subject to the $3,000 limitation in future years. If the Limited Member is a corporation, the net capital loss can only be used to offset capital gains, with any excess carried back first to the three prior years and then carried forward to the five subsequent years.

C. Possible Application Of Section 469 Of The Code.

The General Manager believes that it is more likely than not that income or loss reported by the Company will be considered either passive or portfolio income or loss under the provisions of the Code. Therefore, potential investors should consider the following discussion of Section 469 of the Code.

To the extent that the income or losses of the Company are determined to be income or loss from a passive activity, noncorporate Interest Holders (and certain corporations which are personal service corporations or are closely held) should consider the impact of the limitation on the deductibility of losses and credits from passive activities under Section 469 of the Code as added by the 1986 Tax Reform Act. Under Section 469, losses and credits from passive activities are allowable only against income from similar passive activities. Portfolio income is not considered passive under Section 469 and may not be offset by passive losses. Portfolio income generally includes interest, dividends, annuities, royalties and capital gains from property held for investment.

In general, a "passive activity" is any rental activity or any activity which involves the conduct of a trade or business in which the taxpayer does not materially participate. For purposes of Section 469 of the Code, a taxpayer is treated as materially participating in an activity if the taxpayer satisfies at least one of the seven safe harbor rules set forth in the Treasury Regulations. Generally speaking, these rules emphasize the quantity of taxpayer participation (the number of hours worked) rather than the qualitative nature of the services rendered.

Except as provided in the Treasury Regulations, a Limited Member is not treated as materially participating in an activity conducted by a limited liability company. Consequently, a Limited Member that is an individual, estate, trust, or personal service corporation as a general rule may deduct the net losses from a limited liability company only against passive income and not against that limited member's active business income or portfolio income. Similarly, a limited member that is a closely held C corporation may not deduct the net losses of a limited liability company against its portfolio income, but may offset such losses against its active business income in addition to any passive income. However, any disallowed passive losses may be carried forward and deducted against future passive income earned by such a limited member subject to the passive activity limitations, and, in the case of a closely held C corporation, against any future active business income. Any suspended passive losses may also be offset against passive and nonpassive income when the limited member disposes of his or her entire interest in the passive activity to an unrelated person in a transaction in which gain or loss is recognized.

The Treasury Regulations contain several exceptions to the general rule that a Limited Member's interest in the income and losses of a limited liability company is passive income and losses. However, the General Manager believes that it is more likely than not that these exceptions will not apply, and that the income received by the Limited Members will be either passive or portfolio income or loss under the provisions of the Code. The passive or non-passive nature of trade or business income is determined at the individual level and is not considered to be a partnership item.

The above analysis is based upon regulations, including temporary regulations, issued by the IRS. Much detail has been omitted from this analysis and further interpretation of these provisions will be provided in additional regulations and administrative and judicial proceedings. Potential investors are advised to consult their own tax advisors to determine the consequences of Section 469 on their personal tax liability.

D. Deductibility Of Interest And Other Partnership Expenses.

The deductibility of interest expense incurred by a noncorporate Limited Member who borrows to finance his or her investment in the Company and the deductibility of a noncorporate Limited Member's distributive share of interest expense (if any) paid by the Company may be limited. The Company does not intend to incur any such expense, so the analysis below will apply only to interest paid by Limited Members and by the Company. In order to determ

Under the 1986 Tax Reform Act, a noncorporate taxpayer's deduction for "investment interest" is limited to the amount of the taxpayer's "net investment income." "Investment interest" is defined as any interest expense which is paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. "Net investment income," which is the cap on the deduction of "investment interest," is defined as the excess of "investment income" over "investment expenses." "Investment income" is the sum of interest, dividends, annuities, royalties and net capital gains on the disposition of property held for investment, but only to the extent that they are not derived from a trade or business. "Investment expenses" are any expenses other than interest for which a deduction is allowable and is directly connected with the production of investment income. Interest expense that is disallowed because of the investment interest limitation continues to be allowed as a carryover to later years and is deducted to the extent of the limitation in any carryover year.

The 1986 Tax Reform Act provides that interest expense allocable to passive activities is treated as a passive activity expense and not treated as investment interest. Thus, deductions for such interest expense are subject to limitation under the passive loss rules and not under the investment interest limitation. Similarly, income and loss from passive activities generally are not treated as investment income or loss in calculating the amount of the investment interest limitation.

Although the interest deduction limitations are in part summarized herein, each investor should consult his or her tax advisor regarding the potential limitations on the deductibility of interest expense.

Under the Tax Reform Act of 1986, certain miscellaneous itemized deductions (including investment expense) are deductible by taxpayers who are individuals only if the aggregate amount of the deductions exceed two percent (2%) of the individual's adjusted gross income.

If the activities of the Company are determined not to constitute the conduct of a trade or business, the deductibility of a Interest Holder's share of the Company's noninterest investment expenses, if any, would be subject to the two percent (2%) floor. It is possible that the Treasury Department will adopt regulations which will cause this limitation to apply to the Limited Members even if the Company, but not the Limited Members, is engaged in a trade or business.

Potential investors are advised to consult their own tax advisors in this Regard.

E. Alternative Minimum Tax.

In addition to the regular income tax, an alternative minimum tax which ranges from 26% to 28% for individuals and 20% for corporations is imposed on the excess of alternative minimum taxable income over an exemption amount. Alternative minimum taxable income is generally equal to taxable income determined with certain adjustments and increased by the amount of certain tax preferences. The alternative minimum tax is not imposed on the Company. The Company does not anticipate that any tax preference items will flow through to Limited Members. However, to the extent that this should occur, a Limited Member must include his or her allocable share of the Company's items of tax preference with his or her own tax preference items in order to compute any alternative minimum taxable income.

Because the effect of the alternative minimum tax varies depending upon each Interest Holder's tax and financial position, each prospective investor is advised to consult with his or her own tax advisor concerning the effect of the alternative minimum tax on such investment.

F. Tax Allocations in General.

The Limited Liability Company provides that each Member and Limited Member will be given an original capital account equal to the cash contributed by the Member and Limited Member to the Company.

The Operating Agreement further provides that each item of income, gain, loss, deduction and credit of the Company will be allocated among the Limited Members (after allocation of the one percent (1%) participation of the General Manager) in an amount not to exceed the Yield. Each Interest Holder's capital account is appropriately increased or reduced by the Interest Holder's distributive share of Company income, gain, loss, deduction and, in certain instances, credit.

The General Manager is given flexibility so that any changes in the ownership of Interest Units during the term of the Company, such as the entry of new Interest Holders, the withdrawal (total or partial) of Interest Holders' and increases in Interest Holder's capital accounts, as well as other relevant matters, can be dealt with as fairly as possible within the limits prescribed by the Code and IRS Rulings.

Although the General Manager believe the allocations in the Operating Agreement which are based on economic considerations should be recognized, there can be no assurance that the IRS will accept these allocations. The IRS may contend that such allocations do not meet the substantial economic effect requirement, in which case the IRS may attempt to allocate the Company profit and loss in some other manner based on its determination of the Interest Holders' interests in the Company.

Generally, any distribution to a Interest Holder on withdrawal, liquidation or otherwise is based entirely upon the Interest Holder's capital account or some component thereof.

G. Tax Consequences of Contributions, Distributions, Partial and Total Withdrawal From the Company, and Sales of Units.

Generally, the contribution of cash by an Interest Holder to a limited liability company is not a taxable event.

Generally, no gain or loss will be recognized by a Interest Holder on distributions of property (such as Mortgages) from the Company. However, gain will be recognized by each Limited Member on Company distributions of money to the extent that the amount of money distributed (which includes, for these purposes, a reduction in the Interest Holder's share of Company liabilities previously included in the Interest Holder's basis) exceeds the Interest Holder's adjusted basis for his limited liability company interest immediately before the distribution. This gain has the same character as would gain realized by a partner upon a sale or exchange of a partnership interest; that is, as capital gain, except to the extent that the gain is attributable to (1) inventory held by the Company which inventory has a market value which exceeds (a) 120% of the Company's adjusted basis in the property, and (b) 10% of the market value of all limited liability company property other than money ("substantially appreciated inventory"), or (2) unrealized receivables. If a distribution from the Company to an Interest Holder is attributable to either inventory (as described above) or unrealized receivables, the tax impact will be governed by the complex provisions of Section 751(b) of the Code, but generally may result in ordinary income recognition to the Interest Holder or the Company. Subject to a change by Congress, Company Units held for more than 18 months will generate long-term capital gain or loss on disposition.

If the distribution is not in liquidation of the Company or in liquidation of a Interest Holder's interest, the basis to the Interest Holder of property distributed will, generally, be the lesser of (a) the Company's basis in the asset, or (b) the Interest Holder's basis in his Company Units. If the property is distributed in liquidation, the Interest Holder's basis in the distributed property will be the Interest Holder's adjusted basis in his or her Company Units. The property distributed will, generally, retain in the hands of the distributee Interest Holder the same character that it had to the Company. Furthermore, if the distributed property

If a Limited Member sells his or her Units in the Company, any gain will be treated as capital gain unless the gain is attributable to unrealized receivables or inventory, in which event the proceeds are taxable as ordinary income. If only a portion of the gain is attributable to inventory or unrealized receivables, then only that portion of the gain would be taxed as ordinary income.

When a Limited Member disposes of his or her entire interest in the Company in a fully taxable transaction, any losses previously suspended by operation of Section 469 of the Code (i.e., passive activity losses) may be allowed. If any gain from the sale of the Units is considered passive, it will be offset first by any suspended passive losses. Any remaining suspended losses may be applied against portfolio and ordinary income. If the Limited Member recognizes a loss on the disposition, the limitations on the deductibility of capital losses apply. In the case of the disposition due to death of the Limited Member, suspended losses are allowed to the extent the losses exceed the amount by which the basis of the decedent's interest in the Company was increased at death under Section 1014 of the Code.

The sale or exchange within a 12-month period of 50% or more of the total interest in Company capital and profits may result in a technical termination of the Company for federal income tax purposes only. Recently adopted regulations under Code Section 708 provide that such a technical termination results in a deemed contribution by the old partnership of all assets and liabilities into a newly formed partnership in exchange for new partnership interests. The partnership interests of the new partnership are then deemed distributed in liquidation of the old partnership to the ongoing members. Such a termination does not close the Company's taxable year.

A closing of the Company's taxable year will occur with respect to an Interest Holder who terminates his or her entire Interest. As a result, all income attributable to long-term appreciation of a Interest Holder's Interest over several years could be taxable to the Interest Holder in the taxable year of such termination.

H. Section 754 Election.

The General Manager may file, on behalf of the Company, an election under Section 754 of the Code to adjust the basis of Company property. In such event, the basis of Company property would be adjusted to reflect certain distributions to an Interest Holder upon the liquidation or sale of Units in the Company or on the death of an Interest Holder.

In general, under this election, were a distribution to an Interest Holder to result in recognized gain to the distributes Interest Holder, the Company would increase the basis of its remaining, property by the amount of gain recognized.

Conversely, if an Interest Holder were to receive a distribution that terminated his entire interest at a loss, the Company would decrease the basis of its remaining property by the amount of the loss recognized to the distributee Interest Holder.

Similar rules would affect the basis of Company assets with respect to a transferee Interest Holder if the transferor were to realize a gain or loss on the transfer of his interest.

The General Manager, at present, does not intend to make the Section 754 election. If, however, the election is made, it cannot be revoked without the permission of the Commissioner of the Internal Revenue Service.

I. State And Local Taxes.

Investing in the Company may subject the Interest Holder to certain state and local income or excise taxes in states in which the Company may be deemed to be doing business or own property.

J. Unrelated Business Taxable Income.

Certain Interest Holders such as ERISA plans, foundations and other non-profit organizations are generally exempt from taxation except to the extent that their "unrelated business taxable income" ("UBTI") exceeds $1,000 during any fiscal year. UBTI is generally defined as gross income derived by a tax-exempt organization from a trade or business "not substantially related" to the exercise of the function which underlies the tax exemption of the organization, or from "debt financed" property. Since interest, dividends and capital gains, the creation of which is the objective of the Company, are excluded from UBTI, the General Manager expect that there will be little or no UBTI to tax exempt Members. However, a tax exempt organization considering an investment in the Company should consult carefully with its own tax advisor to determine whether the income from this investment will be treated as unrelated business taxable income.

K. Tax Returns.

The Company will furnish to each Interest Holder as soon as possible after the close of the Company's taxable year, information required for filing federal and state income tax returns. The Company itself will file an annual U.S. Partnership Return of Income and comply with all state and local reporting requirements.

The Tax Reform Act of 1984, as amended by the 1997 Tax Act, also requires that each person who transfers an interest after December 31, 1984, in a partnership possessing "unrealized receivables" or "inventory items" (within the meaning Section 751 of the Code) report such transfer to the partnership. If so notified, the partnership must report the identity of the transferor and transferee to the IRS, together with other information described in regulations to be issued by the Treasury Department. Failure by a partner to report a transfer covered by this provision may result in a penalty of $50 per occurrence.

The Company's tax returns are subject to tax audit by the IRS or state or local authorities, and the items set forth on such returns are subject to adjustment. An adjustment in the items reported on the Company's return may result in an adjustment in the tax liability of the Interest Holders.

Detailed rules relating to notice and participation in administrative and judicial proceedings concerning partnership items are contained in the tax laws. Because of these rules, it is possible that some Limited Members will be bound by action taken at the Company level by the "Tax Matters Member" without having received notice from the IRS. The tax law also requires that Interest Holders treat Company items on their individual returns consistent with treatment on the Company return or disclose the different treatment. Penalties are provided for failure to comply with these requirements.

The Company will not register currently as a tax shelter with the IRS because it is not currently required to do so by the Code and regulations. If at any time during the five year period after Units are first offered for sale, the Company becomes a "tax shelter" within the meaning of the tax shelter registration provisions, the Company will be required to register with the IRS and maintain a list of its investors for IRS inspection.

L. Note Of Caution.

THE FOREGOING DISCUSSION IS BASED UPON EXISTING INTERPRETATIONS OF LAW AND REGULATIONS WHICH ARE SUBJECT TO CHANGE. PROSPECTIVE INVESTORS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN THE COMPANY, IN LIGHT OF EXISTING AND PROPOSED TAX LEGISLATION.

X. SUMMARY OF THE OPERATING AGREEMENT

A. Organization And Management.

The Company was formed on May 11, 1997, pursuant to the Washington Limited Liability Company Act. The Member of the Company is N W L.L.C., a Washington limited liability company.

The Member has full and complete authority with respect to the management and control of the business operations and all other aspects of the Company. The Limited Members have no participation in management and do not vote on any matters other than material amendments to the Agreement.

The General Manager and its officers and directors are permitted to engage in any other business venture, whether or not such business is similar to the business of the Company, and neither the Company nor any other Interest Holder will have any rights in, or to, such ventures or the income or profits derived therefrom.

B. Participation by the Limited Members and Member in Company Earnings.

One percent (1%) of the Company's Cash Available for Distribution shall be paid to the Member on a quarterly basis. The Limited Members will be entitled to receive, as their share of Company Cash Available for Distribution, the lesser of (1) 99% of the Company's Cash Available for Distribution, or (2) a Cumulative Preferred Adjustable Annual Yield (the "Yield"), compounded and payable quarterly, calculated as a percentage of each Limited Member's capital account. The Yield is defined as an annual rate which is initially 225 basis points in excess of the current coupon Cash Flow Yield applicable to 15-year GNMA securities (the "GNMA Rate") as published from time to time in *The Wall Street Journal*. It is adjustable from quarter to quarter on 90 days advance written notice by the Fund. (See "The Fund and Its Management-The Yield.")

After payment to the Members and the Limited Members of their respective percentages of Cash Available for Distribution as described above, including amounts for redemption of Units for which timely notice of redemption was given, the Members will be entitled to receive, as their residual participation, all Company Cash Available for Distribution to the extent it exceed the amounts to which the Limited Members are entitled, and to the extent payment thereof does not cause the Company's total assets to be reduced below the Minimum Portfolio Capitalization required by the Agreement. The Member will be entitled to receive payments of its participation on a quarterly basis. (See "Investment Objectives and Policies-Minimum Portfolio Capitalization.")

C. Limited Liability.

A Limited Member, as such, is not personally liable for any of the debts or obligations of the Company. No Limited Member will be subject to assessment or will otherwise be required to make any cash contribution to the Company beyond that indicated in his or her Subscription Agreement. However, a Limited Member who has withdrawn all or part of his or her capital may be liable to the Company for any sum, not in excess of such withdrawal, necessary to discharge Company liabilities to creditors whose claims arose before the effective withdrawal date.

D. Fiscal Year.

The Company's fiscal year ends on December 31.

E. Capital Contributions.

Subject to the discretion of the General Manager to make exceptions, the minimum initial capital contribution of a Limited Member is $25,000. Additional capital contributions may be made by Limited Members with the consent of the General Manager. The minimum amount required for additional capital contributions will be at the discretion of the General Manager. Capital contributions from Interest Holders shall be by [illegible] otherwise authorized by the General M[illegible]

F. Capital Accounts.

Each Interest Holder will have a capital account established on the books of the Company which will be credited with his or her capital contributions. A Company percentage will be determined for each Limited Member for each fiscal period by dividing the number of Units standing in his or her name by the total number of Units outstanding as of the beginning of such fiscal period. Share balances and Company percentages will be adjusted by the General Manager to take into account additions of capital or the admission, withdrawal or termination of Interest Holders during a fiscal period.

G. Valuation Of Investments.

The General Manager will be responsible for determining the value of each Mortgage acquired or sold by the Company. For purposes of calculating the Minimum Portfolio Capitalization, the value shall be the remaining principal balance due on the valuation date pursuant to the promissory note or other obligation underlying such Mortgage. The General Manager may, subject to the requirement of maintaining the Minimum Portfolio Capitalization, cause the Company from time to time to buy or sell mortgages at rates greater or less than the value as calculated above.

H. Withdrawal Of Capital.

Upon 60 days' prior written notice, at the end of any calendar quarter, each Limited Member has the right to withdraw the amount in his capital account in whole or in part, subject to provision for Fund liabilities and reserves for contingencies. *The General Manager may require a Limited Member to withdraw all or part of his capital account on ten days' notice as of any month-end.*

The Agreement provides that the Company must distribute the amount to be withdrawn as soon as practicable following the date as of which the withdrawal is to be effective, provided that the General Manager reserve the right to delay payments in extraordinary circumstances.

I. Expenses.

The Member will pay on behalf of the Company, in consideration of its participation in Company earnings and profits, all expenses relating to office space, equipment, supplies, telephone, salaries of in-house personnel, servicing, escrow and recording of transactions, the purchase, sale, trade, custody, transfer, or insurance of Company assets and other services which are part of the day-to-day administration of the Company, including expenses for third-party professional services such as legal and accounting fees, and fees and costs of foreclosure and collection of Mortgages in default. Extraordinary expenses resulting from real estate ownership after realization against mortgaged property, including taxes and maintenance expenses; will also be expenses paid by the Members.

J. Transferability Of Fund Units.

Units are not transferable without the consent of the General Manager, subject to the specific requirements of the Agreement. Resale of such Units is also restricted under federal and state securities laws. These restrictions are described in the Subscription Agreement. However, a Limited Member may make a total or partial withdrawal subject to the terms of the Agreement.

K. Term Of Fund, Dissolution And Liquidation.

The events that would cause the dissolution of the Company are (1) the expiration of the term of the Company on December 31, 2025, or (2) the voluntary withdrawal, death, dissolution, bankruptcy, incapacity, or required withdrawal of a Member unless the remaining Member, if any, elect to continue the C... is no remaining Member, the Company would be...

Upon dissolution of the Company, its assets would (as soon as practicable after an event causing early dissolution or at the end of the term of the Company) be liquidated and, after payment of the Company's debts and expenses, the Company would distribute to each Interest Holder, his or her proportionate share of the net assets of the Company. Distributions would be made to the Interest Holders as soon as practicable after the date of dissolution and such distributions would be either in cash or in kind in the sole discretion of the General Manager.

L. Exculpation.

Neither the General Manager nor any Member will be liable to any other Interest Holder for any claims or losses other than those directly attributable to the General Manager's or Member's own fraud, gross negligence, or willful disregard of its duties. Moreover, neither the General Manager nor any Member will be liable for any claims or losses due to circumstances beyond its control such as the bankruptcy or insolvency of a bank or debtor on a Mortgage or due to the negligence or dishonesty of an employee, broker or other agent of the Company.

M. Indemnification Of Member.

The Agreement also provides that the Fund is to indemnify the General Manager or a Member for any loss or expense incurred by it by reason of being General Manager or Member, provided such loss or expense resulted from an honest mistake of judgment or from action or inaction taken in good faith and reasonably believed to be in, or not opposed to, the best interests of the Company.

N. Amendments To Agreement.

The Agreement may be modified or amended at any time by the consent of the Member and of a majority of the Limited Members. No such amendment, however, may discriminate among the Limited Members. Further, the Member is empowered to make amendments to the Agreement in any manner that does not adversely affect the rights of any Limited Member.

O. Reports To Interest Holders.

As soon as possible following the end of each fiscal year, the Company will mail to each Interest Holder an audited financial report prepared by the Company's accountants. It is anticipated that this audit will be performed by BDO Seidman. The report will set forth the Company's assets and liabilities and realized and unrealized net capital gains or losses of the year. The Company will provide each Interest Holder with a quarterly report of the Interest Holder's closing Unit balance, capital account and the manner of its calculation, and the Interest Holder's opening Unit balance, capital account and Company percentage established for the succeeding quarter.

THE FOREGOING SUMMARY OF THE LLC AGREEMENT DOES NOT PURPORT TO BE COMPLETE AND EACH PROSPECTIVE LIMITED MEMBER SHOULD READ THE LLC OPERATING AGREEMENT IN ITS ENTIRETY.

XI. LEGAL MATTERS

Certain legal matters in connection with the Units offered hereby have been passed upon by SLOAN BOBRICK & OLDFIELD, INC. P.S., counsel for the Company, the Member and certain of its affiliates. That firm has issued an opinion on the treatment of the Company as a partnership for federal income tax purposes. SLOAN BOBRICK & OLDFIELD, INC. P.S. has not been retained to represent the interests of Limited Members. A copy of the opinion letter is available for inspection from the Members upon request.

2001		JANUARY				2001
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from JANUARY 15

MONDAY JAN 15 15/350

Martin Luther King, Jr. Day (US)

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1 Mike Woodell
1:15
1:30 Sign Addendum
1:45
2
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2:30
2:45
3

1 @ 22.00 22.00
FLAT TOP HORIZ
1 @ 99.00 99.00
LOCK CYLINDERS 2PK 512
1 @ 20.00 each 20.00

RECEIPT Sub-Total: 141.00
REQ'D FOR
REFUND Tax 8.60: 12.13

Total: 153.13

THANK Total Paid: 153.13
YOU! Change: 0.00

Sign Rack For Car

TUESDAY JAN 16

7
7:15
7:30

CREDIT SALE
TEMPLETON'S STN#:00204118
8111 86th Ave NW
GIG HARBOR, WA

REG-UNL/SELF 15.148g @ $1.519 $23.01
SALE TOTAL: $23.01
XXXXXXXXXXXX9551 E/ VISA
MITCHELL/ROBERT EXPIRES:10/02
01/16/01 15:31 CASHIER 000
INVOICE#:1843824 AUTHORIZATION#:010042
CUSTOMER COPY

**** THANK YOU FOR CHOOSING CHEVRON ****

1
1:15
1:30 Grace Hotloff
1:45 Counter
2
2:15
2:30
2:45 Amy Smith
3 ~~Kitsap Bank~~
:15
:30
:45
:15
:30
:45
:15
:30
:45 Continental Tire
:15
:30
:45
:15
:30
:45
:15

WEDNESDAY JAN 17

7
7:15
7:30
7:45
8
8:15
8:30
8:45
9 Grace Hotloff
9:15 Deliver signed copies
9:30
9:45
10
10:15
10:30
10:45
11
11:15
11:30 Will Stevens
11:45 Ford
12
12:15
12:30
12:45
1
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2
2:15
2:30
2:45
3
3:15
3:30
3:45
4 Audrey Redout
4:15
4:30
4:45

TRAN # 3 242
AMOUNT $ 6.80
I AGREE TO PAY THE ABOVE AMOUNT ACCORDING TO CARD ISSUER AGREEMENT
X
THANK YOU
PLEASE COME AGAIN

clothes

to **APRIL 8**

2001			MAY			2001
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

APRIL 5 ... FRIDAY, APRIL 6 ...

Thursday: Sales Meeting; Kevin Byrne

Friday:
7:15 Mike Hogaboom
8:30 Jim Austin
9 Mellisa Jacobsons
12:45 Lynn Price (12:57)
6:15 John Neeland
6:45 360-987-2273
7:15 H. 360-987-9997

Saturday: 11:45 Vic ... (11:05)

George Skorick Lease Space

Sign mail

Diesel $8.00
Total ! $8.00
Thank You For Shopping Star Mart Please Come Back Again!!

GIG HARBOR, WA
DIESEL/SELF 15.93 ..569 $25.00
SALE TOTAL: $25.00
XXXXXXXXXXXX9551 E/ VISA
EXPIRES:10/02
04/07/01 09:00 CASHIER 000
INVOICE#:1852104 AUTHORIZATION#:031903
CUSTOMER COPY
**** THANK YOU FOR CHOOSING CHEVRON ****

CD TYPE: VISA
TR TYPE: PURCHASE
DATE: APR 05, 01 10:19:54
TOTAL $20.68
TOP COPY-MERCHANT BOTTOM COPY-CUSTOMER

STN#:00204118
111 86th Ave NW
GIG HARBOR, WA
PLS-UNL/SELF 12.828g @ $1.559 $20.00
SALE TOTAL: $20.00
XXXXXXXXXXXX9551 E/ VISA
MITCHELL/ROBERT EXPIRES:10/02
04/05/01 14:01 CASHIER 000
INVOICE#:1851920 AUTHORIZATION#:041771

to JUNE 10

2001 JULY 2001

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

THURSDAY JUNE 7 158/207

7
7:15
7:30
7:45
8
8:15
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8:45
9 Sales Meeting
9:15
9:30
9:45
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10:15
10:30
10:45
11
11:15
11:30
11:45
12
12:15
12:30
12:45 Joe #108 – Jim MacAlexander
NW LLC Sean + Amy Smith

Greg Toilet light lock

FRIDAY JUNE 8 159/206

7
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10:15 Olympic
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12:45
1
1:15
1:30
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2
2:15
2:30
2:45
3
3:15 Doug
3:30
3:45
4 P/U Foster's check
4:15
4:30
4:45
5
5:15
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7
7:15
7:30
7:45
8

SATURDAY JUNE 9 160/205

7
7:15
7:30
7:45
8
8:15
8:30
8:45 Blakely
9
9:15
9:30
9:45
10
10:15
10:30
10:45
11
11:15
11:30
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12
12:15
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3:45
4
4:15
4:30
5

PUMP SELF 59 $23.85
SALE TO $23.85
XXXXXXXXXXXX9551 E/ VISA
MITCHELL/ROBERT EXPIRES:10/02
06/10/01 10:55 CASHIER 000
INVOICE#:1050504 AUTHORIZATION#:065136
CUSTOMER COPY

**** THANK YOU FOR CHOOSING CHEVRON ****

Doug's TRAV – 475-1601
Performance Auto
LUBE GUARD –

BARTELL DRUGS #39
STORE 858-7444 / PHARMACY 858-7455

WE CAN DEVELOP YOUR FILM
IN JUST ONE HOUR!

PRESCRIP

14.99

7
7:15
7:30
7:45
8
8:15
8:30
8:45
9 Doug Tippel
9:15
9:30
9:45
10
10:15
10:30 Reliable Appliance
10:45
11
11:15
11:30
11:45
12
12:15
12:30 Ollie Stevens
12:45
1 Gary Gordon
1:15
1:30
1:45
2
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2:30

7
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9
9:15
9:30 SUSAN 2316-22nd Ave ct
9:45
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10:15
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11:45
12
12:15
12:30
12:45
1
1:15
1:30 Everett Holum
1:45
2
2:15 Ran 260

WEDNESDAY, JUNE

7
7:15
7:30
7:45
8 Amy Kapp
8:15
8:30
8:45
9
9:15
9:30
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10:15
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11:15
11:30 Ron Mueller
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12
12:15
12:30 Brian Cunningham
12:45
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3
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3:45
4
4:15
4:30
4:45
5 Ron Andrew

2	2	99.0000	66.8250	133.65
4	4	99.0000	66.8250	267.30
1	1	99.0000	66.8250	66.83

Fix Trunk

Sub Total	935.80
Sales Tax	82.30
FREIGHT	10.41
TOTAL	1028.30

CARD TYPE VI
TERMINAL # 8[illegible]
TRAN TYPE [illegible]
AUTH CODE 02[illegible]
RECORD # 001

AMOUNT $ 70.53

SIGNATURE X

I AGREE TO PAY ABOVE TOTAL AMOUNT

PACKING SLIP

from JULY 30

MONDAY JULY 30	TUESDAY JULY 31	WEDNESDAY AUGUST
7	7	7
7:15	7:15	7:15
7:30	7:30	7:30
7:45	7:45	7:45
8	8 Kevin Beren	8
8:15	8:15	8:15
8:30	8:30	8:30
8:45	8:45	8:45
9	9	9
9:15	9:15	9:15
9:30	9:30	9:30
9:45	9:45	9:45
10	10	10
10:15	10:15	10:15
10:30 Kevin Bond	10:30	10:30
10:45	10:45	10:45
11	11	11
11:15	11:15	11:15
11:30	11:30 Bellevue	11:30
11:45	11:45	11:45
12 Entry Cove Dr NE	12	12
12:15	12:15	12:15
12:30	12:30	12:30 Schwab.co
12:45	12:45 Adams Dr.	12:45
1	1	1
1:15	1:15 Bellevue	1:15
1:30	1:30	1:30 Entry Cov
1:45	1:45	1:45
2	2	2 1/9/12 DEM
2:15	2:15	2:15
2:30	2:30	2:30
2:45	2:45	2:45
3	3	3
3:15	3:15	3:15
3:30	3:30	3:30
3:45	3:45	3:45
4	4	4
4:15	4:15	4:15
4:30	4:30	4:30
4:45	4:45	4:45
		5 Absent
		5:15
		5:30
		5:45
		6
		6:15
		6:30
		6:45
		7
		7:15

1. Priority Me
Destinatior
Weight:
Postage Tyr
Total Cost
Base Rate: 3.50

Subtotal 3.50
Total 3.50

Cash 5.00
Change Due 1.50
Cash

T 6

WEDNESDAY

		7
	7:15	7:15
7:30	7:30	7:30
7:45	7:45	7:45
8	8	8
8:15	8:15	8:15 Amy Smith
8:30	8:30	8:30
8:45	8:45 Gary Greenblatt	8:45 Leases
9	9	9 Continental
9:15	9:15	9:15
9:30	9:30	9:30 NW Acker
9:45	9:45	9:45
10 Kevin Bond	10	10
10:15	10:15	10:15
10:30	10:30	10:30
10:45 Win Stevens	10:45	10:45
11	11 Susan Wagner	11
11:15	11:15	11:15
11:30	11:30	11:30
11:45	11:45	11:45
12	12	12
12:15	12:15	12:15 John Mos
12:30	12:30	12:30
12:45 Gary Greenblatt	12:45	12:45
1	1	1
1:15 Mike Woodell	1:15	1:15
1:30	1:30	1:30 Boys
1:45	1:45	1:45
2	2	2
2:15	2:15	2:15
2:30	2:30	2:30 And
2:45	2:45	2:45
3	3	3
3:15	3:15	3:15 Girls
3:30	3:30	3:30
3:45	3:45	3:45
4	4	4 Club
4:15	4:15	4:15
	4:30	4:30
	4:45	

8.1000% 1.62
$21.62

CHANGE ======> 22.00
0.38

Thanks for shopping at Big 5!
Please visit our website at
www.big5sportinggoods.com

8/06/01 15:36

Office Equip

Longitude Capsules.com

File

2001 SEPTEMBER 2001

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23/30	24	25	26	27	28	29

. ESTATE

to AUGUST 12

Page 3

AUGUST 5 - 2001	FRIDAY AUGUST 10	SATURDAY AUGUST 11 - 2001	
	7	7	
	7:15	7:15	
	7:30	7:30	
	7:45	7:45	
	8	8 BOAT PARTY	
	8:15	8:15	
	8:30	8:30	
Bowen	8:45	8:45	
	9 Eric Russell	9	$15.76CR
	9:15	9:15	
	9:30	9:30	
	9:45	9:45 TRAVIS	
	10	10 GILBERT	
	10:15	10:15 WHITE	
	10:30	10:30 Bowen	$0.00
	10:45	10:45	
	11 EDWARDS	11	
	11:15	11:15	$0.00

Wagner

STEVE ANDERSON
425-453-9060

TO

HANSON & WONG
888-819-6013

Russell
ade

pop
Cooler

2001 AUGUST 2001

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

MONDAY AUGUST 13 225/140 — TUESDAY AUGUST 14 — WEDNESDAY AUGUST 15

Monday August 13

- 8:00 Cutter & Buck
- 8:30 Pat Nugent
- 9:30 100-622-1491
- 11 Whalin Hill — Called on listing
- 2 Bill Wellman — Bandix Road — 3 1/2 Ac.

Tuesday August 14

- 9 Kevin Born
- 12 Sheri Ranzoeck — Cutter/Buck
- 2 Olympic Cascade
- 4 Jim Ridley

Wednesday August 15

- 9 Bill Stevens — Tim Sylvia
- 11 RPM Parker
- 2 Sylvia Sazo

Time slots: 7, 7:15, 7:30, 7:45, 8, 8:15, 8:30, 8:45, 9, 9:15, 9:30, 9:45, 10, 10:15, 10:30, 10:45, 11, 11:15, 11:30, 11:45, 12, 12:15, 12:30, 12:45, 1, 1:15, 1:30, 1:45, 2, 2:15, 2:30, 2:45, 3, 3:15, 3:30, 3:45, 4, 4:15, 4:30, 4:45, 5, 5:15, 5:30, 5:45, 6, 6:15, 6:30, 6:45, 7, 7:15, 7:30, 7:45, 8

Ac
Pay
Date
05/2
Mon
Su
St
CHA
CUSTO

ES MAY BE
S GASOLINE
STATEMENT.
ON MOTOR

76

9551 VISA 08/13/01
1002 INVOICE 134210
00-047779 REF 901 42-008
5555 SOUNDVIEW DR
76 GIG HARBOR WA
QUANTITY PRICE AMOUNT
6.253G $1.599 10.00

GIG HARBOR, WA
DIESEL/SELF 24
SALE TOTAL $3
XXXXXXXXXXXX9551 E/ VIS
MITCHELL/ROBERT EXPIRE
08/15/01 13:27 CASH
INVOICE#:1865319 AUTHORIZATION#
CUSTOMER COPY

2001			AUGUST			2001
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

from AUGUST 20

MONDAY AUGUST 20 232/133

7
7:15
7:30
7:45
8 — Brian Russell
8:15
8:30
8:45
9
9:15
9:30

TUESDAY AUGUST 21 233/132

7
7:15
7:30
7:45
8
8:15
8:30
8:45
9 — Will Stewart
9:15
9:30
9:45
10
10:15
10:30
…5
…15
…30
…45
12 — Leave to Bellevue
12:15
12:30
12:45
1
1:15 — Steve Anderson
1:30
1:45
2
2:15
2:30
2:45
3 — Serena 853-2804
3:15
3:30
3:45
4

WEDNESDAY AUGUST 22 234/131

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9:15
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9:45
10 — Bob Pistay
10:15
10:30
10:45
11
11:15
11:30
11:45
12 — Amy Smith
12:15
12:30
12:45
1
1:15
1:30
1:45
2
2:15
2:30
2:45
3 — Susan Wagner
3:15
3:30
3:45

Dave Hunter

Tour Lombardi
…06 - 818 - 1036
Helena Road

BIG 5 SPORTING GOODS - #119
?811 Point Fosdick Dr. N.W.
?ig Harbor, Wa. 98335
?3-851-2172

?2 11 7052 119 001

?27 BDYGLV MEDALIST SKI VEST
49.99 -1 -49.99
?7 BDYGLV MEDALIST SKI VEST
49.99 -1 -49.99

Subtotal	-99.98
Sales Tax 8.1000%	8.10
TOTAL	$-108.08
Credit Card	-108.08

*9551

?N RECEIPT

?hopping at Big 5!
?our website at
?tinggoods.com

CREDIT CARD SLIP

Credit Card Amount : 7.00
Card No : XXXXXXXXXXXX9551
Card Type : VISA
Holder : XXXXXXXXXXXXXX
Expiration : 1002
Approval : 029661 5

<<CUSTOMER COPY>>

AUGUST 27

TUESDAY AUGUST 28 2007 | WEDNESDAY AUGUST 29 2007

Boy Scouts of America

Karl Anderson

Doug Tuppel

Fairway Est

Susan North Acres Homes

John Mosich

Paul Miller

Karl Anderson

Henry @ Benjamin

Linda Foster

Olympic Observe

NWLL

NWLL Attorney Demand Notice

* Due for Fraud

* Site Plan

2001		OCTOBER				2001
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

SEPTEMBER 9

THURSDAY, SEPT. 6	FRIDAY, SEPT. 7	SATURDAY, SEPT. 8
DAD	7	7
15	7:15	7:15
30	7:30	7:30 PC Health
45	7:45	7:45
	8 Susan	8
15	8:15 (Inspection)	8:15 Dept
30	8:30	8:30
45 Sales Meeting	8:45	8:45
	9	9
15	9:15	9:15 On-Site
30	9:30	9:30
45 Bert Adams	9:45	9:45
	10	10
10:15	10:15	10:15 Septic
10:30 (Bill Stevens)	10:30	10:30
10:45	10:45	10:45
11	11	11
11:15	11:15	11:15 System
11:30	11:30	11:30
11:45	11:45	11:45
2	12	12
2:15	12:15	
2:30	12:30 Propeller	
2:45	12:45	
McDonald	1 Club	
15	1:15	
30	1:30	
45	1:45	
Marle	2	
15	2:15	
30 Schmoch	2:30	
45	2:45	
	3	
15	3:15	
30	3:30	
45	3:45	
	4	
15	4:15	
30	4:30	
45	4:45	
	5	

MITCHELL

Pump	Gal	Price
08	10	.699

Product	Amount
Diesel	$17.00

Total Sale $17.00

Thank You For Shopping Star Mart Please Come Back Again!!

AMOUNT $35.00

TIP

TOTAL

ACCT: 4023003260329551 EXP: 10/02

AP: 079381

NAME: ROBERT MITCHELL

Education

CARDMEMBER ACKNOWLEDGES RECEIPT OF GOODS AND/OR SERVICES IN THE AMOUNT OF THE TOTAL SHOWN HEREON AND AGREES TO PERFORM THE OBLIGATIONS SET FORTH BY THE CARDMEMBER'S AGREEMENT WITH THE ISSUER

THANKS FOR USING VISA

TOP COPY-MERCHANT, BOTTOM COPY-CUSTOMER

DATE: 1

CODE:

ROBE ELL

BTOTAL: 27.00

GNATURE

Doug Foster

Note Check

2001			SEPTEMBER			2001
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23/30	24	25	26	27	28	29

from SEPTEMBER 17

Time	MONDAY SEPT 17 • 260/105	TUESDAY SEPT 18 • 261/104	WEDNESDAY SEPT 19 • 262/103
7	Rosh Hashanah begins at sundown	Rosh Hashanah	
7:15			851-2170
7:30			
7:45	Key		
8			Harbor Mobile
8:15			
8:30	Gus + Stan 264-3024		
8:45			
9			
9:15			Steve
9:30			
9:45			
10			
10:15			
10:30			
10:45			
11	Appraisal — Susan		
11:15			
11:30			
11:45			
12			
12:15			851-6069
12:30			
12:45			Sound Glass
1			
1:15			
1:30			Seuypro
1:45			
2			[illegible]
2:15			
2:30			
2:45			
3		Compass Resale Cert.	
3:15			
3:30			
3:45			
4	Pilkey		
4:15			
4:30		Wm Stevens	
4:45			
5			
5:15			
5:30			
5:45			
6		Rob NW	
6:15			
6:30			
6:45			
7			
7:15			
7:30			
7:45			
8			
8:15			

Visa Acct
XXXX XXXX 9551
MITCHELL/ RT

Pump	Gallons	Price
07	24.336	$1.699

Product	Amount
Diesel	$41.35

Total Sale $41.35

Thank You For Shopping Star Mart
Please Come Back Again!!

William R. Stevens, Manager
NW Commercial Loan Fund LLC
4540 S Adams St
Tacoma, WA 98409

January 11, 2002

Ladies and Gentlemen:

I am writing to all limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current. The member of the Fund is NW LLC. NW LLC has discontinued operations and is unable to remedy the borrower problems and has no capacity to manage or protect the Fund assets. The limited members asked legal counsel if they acted on their own behalf to protect their own investment would this be a breach of fiduciary responsibilities to other limited members. The opinion was that it would not be a breach of fiduciary responsibility to try to protect everyone's investment in the NW Commercial Loan Fund.

Consideration was given to three alternatives: 1. Wait for the Commercial Loan Fund borrowers to sell or refinance collateral. 2. Seek a remedy that could be receivership, bankruptcy or litigation. 3. Ask that the operating agreement be amended to transfer authority to control NW Commercial Loan Fund LLC from the member (NW LLC) to a majority of limited members.

The decision was to obtain a transfer of authority to a majority of limited members. The majority of limited members consented to a member (NW LLC) resolution, dated November 7, 2001, which ratified, confirmed and approved amendments to the Operating Agreement. A copy of CONSENT OF LIMITED MEMBERS OF NW COMMERCIAL LOAN FUND, LLC IN LIEU OF SPECIAL MEETING OF LIMITED MEMBERS is enclosed.

Since the borrowers did not have the capacity to protect the collateral or make payment to the NW Commercial Loan Fund LLC deeds in lieu of foreclosure were accepted. On November 30, 2001, the deeds in lieu of foreclosure were recorded.

Since November 30, 2001, William R. Stevens has been the manager of the Fund. Some of the limited members are trying to stabilize the collateral. The task to stabilize the collateral is very difficult and complex. The collateral is subject to debt, liens and property taxes in the approximate amount of $8,750,000. A construction loan in the amount of $5,750,000 matured on November 30, 2001. The past due interest was paid and the loan was converted to a two year maturity. The remaining debt involves four lenders. The loans are in default. Two loans are in foreclosure and the other two lenders are expected to start default actions. We are asking these four lenders for concessions and modifications.

EXHIBIT

9.	Certified Mail fee	$	98.75
10.	Posting/Service fee	$	125.00
11.	Miscellaneous Recording fees	$	100.00
12.	Copying Costs	$	45.00
	Total Payoff Figure through October 20, 2001	$	2,466,798.60

I have been authorized by my clients to give you the above-referenced figure as a full payoff figure through Monday, August 22, 2001. Thereafter, default interest will continue to accumulate at the contract rate as well as the other contract amounts, which will continue to accumulate, including attorney's fees. The other fee that is not on here is the publication fee, as the first date of publication is not schedule until October 31. I anticipate the publication costs to be approximately $250. Therefore, I urge you to get this matter closed, and let me know as soon possible the date of closing, and what, if any, action needs to be taken by my clients.

Now, in regard to your settlement proposal on Lots 2, 3 and 4.

This matter has been discussed with my clients. My clients do not wish to give you any extra time on Lots 2, 3 and 4 or on the vacant lots. I believe the only way my clients would even consider giving you extra time to close Lots 2, 3 and 4, is to ask for the amount that you owe to be increased to $1,000,000. As you will recall in my letter of October 5, 2001 concerning Lots 2, 3 and 4, I had set out what I believe to be the principle sum owing for Lots 2, 3 and 4.

Please let me know your thoughts on this issue. I look forward to resolving this matter in the near future.

Sincerely,

Judson C. Gray

JCG:sg
cc: Clients

We have made preliminary inquiry into development issues such as water, septic, easements, restrictions, regulatory issues and site plan approvals.

All of the collateral is listed for sale and is being marketed.

Some of the limited members are funding immediate cash requirements. There will be additional cash requirements and or signature responsibility to protect the collateral. Our initial estimate of cash requirements for the next nine months is $300,000 to $500,000.

The distribution that was made earlier this year is a return of capital. For the tax year 2001, the limited members have no reportable income or loss. Please prepare your 2001 tax return with no income or deduction arising from NW Commercial Loan Fund LLC 2001 operations.

We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover. We will continue our efforts to stabilize the collateral for the benefit of all the members of NW Commercial Loan Fund. If you would like to meet with me or talk by telephone please call me at 253-671-1625.

Sincerely,

William R. Stevens
Manager

Enclosures: Consent of Limited Members, Listing of Limited Members

“E”

Judge Katherine M. Stolz
Hearing Date: May 12, 2006
Hearing Time: 9:00 AM

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation; TIMOTHY JACOBSON, HILARY GRENVILLE,

Plaintiffs,

v.

MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company,

Defendants.

NO. 04-2-10247-8

DECLARATION OF TIM JACOBSON IN RESPONSE TO DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT

Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101

I, Tim Jacobson, hereby declare as follows:

1. I am a plaintiff herein, am competent to testify and make the following statements based upon my own personal knowledge and review of documents.

2. My wife and I invested a substantial portion of our life savings into NW Commercial Loan Fund, LLC based upon representations and discussions Rob Mitchell had with Kevin Byrne and the other founders of the fund. It was always my understanding that these funds were to be used to purchase deeds of trust in commercial property that were to be generally "A" quality (i.e., conforming first-position notes) and part of a diversified portfolio. Based upon the representations and promises that were made, including those in the Private Placement Memorandum which I reviewed at one time years ago, I had always understood that this was a relatively safe and secure way for my wife and I to invest our money.

3. I understand that Mr. Byrne and Dr. Reid, who were the one-time managers of NW, LLC, which in turn acted as the manager for NW Commercial Loan Fund, LLC, are claiming that plaintiffs in this action should somehow be time barred from asserting their claims. I have received and reviewed Mr. Byrne's declaration submitted in support of his motion for summary judgment. It is inaccurate in many respects.

4. In Mr. Byrne's declaration he references a number of meetings he had with various investors in NWCLF. I did not attend any of these meetings in person or through a representative. As I did not attend any of these alleged meetings, I have no idea what occurred or was discussed, or whether these meetings even occurred on the days that Mr. Byrne now claims.

5. Mr. Byrne claims that he had a meeting with Gary Grendahl in February of 2001 where Mr. Byrne indicated he would investigate the status of potential problems with NWCLF. I did not attend this meeting, nor was I advised of any problems regarding the fund or any "investigation" that Kevin Byrne or any other person might be undertaking at this time.

6. Mr. Byrne next claims that he had a meeting with Mr. Grendahl and Will Stevens in March and again in April of 2001. Again, I did not attend these meetings and was not aware of any problem with the fund or the security of my investments at this time. Nor did I ever receive a copy of Exhibit 6 to Mr. Byrne's declaration (entitled "NW Commercial Loan Fund – Balance Sheet") – at any time.

7. Mr. Byrne claims he had a meeting with Mr. Grendahl and Rob Mitchell in May of 2001. I did not attend this meeting, nor did I ever receive the document attached as Exhibit 7 to Mr. Byrne's declaration (entitled NW Commercial Loan Fund Detail of Loans Outstanding). Mr. Byrne also claims that there were discussions at this time about Mr. Grendahl or Rob taking over management of

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Attorneys At Law PLLC
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SEATTLE, WA 98101

NWCLF. I was not involved in any of these discussions, if they even occurred, and I do not recall Rob Mitchell discussing this possibility with me during this time frame.

8. Mr. Byrne references one or more meetings that allegedly took place in June and July of 2001. I did not attend any of these meetings, if they occurred. I did not know at this time that substantially all of NWCLF's investments had been used to purchase junior deeds of trust in a shopping center located in Graham.

9. Attached hereto and incorporated by reference as EXHIBIT A is a true and correct copy of a letter dated July 16, 2001 from Kevin Byrne regarding the status of our investments with NWCLF. Of note, this letter indicated that "[w]e are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you." My understanding at that time was that our investments were still secure and that my wife and I could expect full repayment.

10. To the best of my recollection, some time in early August of 2001, Rob and some of the other limited members first learned that the majority of the fund's money had been invested in junior deeds of trust in a single commercial development in Graham. Up until that point, I had no idea that my investments were somehow in jeopardy. I certainly was not aware of any possible claim that I might have against the current defendants until at least August of 2001. Moreover, even as of August, 2001, it was my understanding that Mr. Byrne was still making

assurances that the members of NWCLF could and would get repaid out of the liquidation of the property in Graham. Thus, it was not even clear at that point whether I had suffered any damages as a result of the fact that my investments had been used contrary to the terms of the Offering Memorandum.

11. Shortly after learning of the situation, I wrote a letter dated August 28, 2001 regarding possible claims against NWCLF. A true and correct copy of that letter is attached as EXHIBIT B. This letter was written shortly after the limited members first learned that our money had been invested into a single project in Graham, Washington and that the loans were secured by junior deeds of trust.

12. At some point in or about November of 2001, Will Stevens took over management of the fund and also accepted "deeds in lieu of foreclosure" on the Graham property. This property included a partially constructed and partially developed shopping center. My wife and I had not invested our money into NWCLF to finance a shopping center that was owned by the defendants (and others). Mr. Stevens undertook an investigation of the status of this project. I believe that this took him several months. While this investigation was ongoing, it was still my hope and belief that my wife and I would be able to recover our investments in the fund out of an eventual sale of the properties. Until it could be determined the actual status of these properties and this project, it was not apparent to me whether I was going to be able to recover any of my investments. In other

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words, I did not know whether I had suffered any damages as a result of the wrongful conduct of the defendants (which was gradually being discovered by the investigation of Mr. Stevens and others in late 2001).

13. Some time after January 11, 2002, I received a letter from Will Stevens, acting as the manager of NWCLF. A true and correct copy of this document is attached as EXHIBIT C. Mr. Stevens detailed the results of his investigation and the possible plans of action. He noted that he had discovered that the loans on the property were in default and that he was working with the lenders to seek concessions in an attempt to keep the project viable and afloat. The concluding paragraph in Mr. Stevens' letter stated "We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover." It was not until I received a copy of this letter (some time in January 2002), that I first had any inkling that my wife and I might not recover our full investment. Prior to this time, even after the discovery of some of the facts in August of 2001, I was under the belief that the investors were expected to recover their investments based on a liquidation of the assets held by the fund.

14. Even after receipt of Mr. Stevens' letter, I know that I and other investors continued to hold out hope that we could recover some or all of our investments. Will Stevens, Gary Grendahl, Rob Mitchell, myself and others worked

hard for several years in trying to get the Graham project on track and get it into a situation where it could be profitable or sold for enough money to make at least partial payments to the various investors. For a variety of reasons, including the significant debt service that the fund inherited with this project, leasing out the Graham project was difficult.

15. I did not know the full scope of my damages (caused by defendants' conduct) until the Graham property was sold (some time in 2005) and it became apparent that my wife and I were not going to recoup our investments out of the sale of the project.

I hereby declare under penalty of perjury in the State of Washington that the foregoing statements are true and correct to the best of my knowledge and belief.

Dated this 5TH day of May, 2006 at GIG HARBOR, Washington.

Timothy A. Jacobson

Tim Jacobson

Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101

LOAN HOLDINGS, LLC

7610 40TH STREET WEST
UNIVERSITY PLACE WA 98466
kbyrneloanholdings@hotmail.com

(253) 565-3932
FAX (253) 565-3973

July 16, 2001

Timothy S. Jacobson
11304-116th Avenue Ct. N.W.
Gig Harbor WA 98329-6904

Re: Financial Statements

Please find enclosed the quarterly financial statement on the NW Commercial Loan Fund. Your individual statements were mailed to you the week of July 2. If you did not receive one, or if you have any questions regarding the enclosed, please feel free to contact me at (253) 565-3932 or email me at the address above.

The line item for loans outstanding in the May 2001 financial statement included late charges shown in some of the outstanding balances. The June 2001 statement has removed those charges as they are difficult to collect in many cases. Those balances now reflect only principal and interest outstanding. The June statement also reflects fees due Loan Holdings, LLC. Those fees will continue to increase as they are not being collected until the Fund's limited members are paid.

We are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you.

Finally, we have received many of the votes necessary to proceed with the quarterly unaudited statements. The majority of preferred members have voted in favor of the unaudited statement. If you have not returned your voting form, I would respectfully request that you do so now. For those of you who have not voted, I have enclosed another form and return envelope.

Sincerely,

LOAN HOLDINGS, LLC

Kevin M. Byrne
Managing Member

KMB/ssm
Enc.

EXHIBIT A

MITCHELL

August 28, 2001

NW L.C.C., LLC
7610 40th Street West
University Place, WA 98464

Re: Notice of Claim

Dear Sir:

I am writing as a limited member of NW Commercial Loan Fund, LLC, and am also writing a similar letter to Mr. Kevin Byrne, Robert Coleman, Dr. James Reid, Michael Price, and Thomas Price.

I am giving notice of claim against NW L.C.C., LLC, Mr. Kevin Byrne, Dr. James Reid, Robert Coleman, Michael Price, and Thomas Price, for all losses and damages I have suffered, or will suffer, as a result of any errors and omissions, breach of fiduciary duties, or any other improper actions taken by any of them in the management of NW Commercial Loan Fund, LLC and the protection of the limited members' membership interests and economic interests. I demand that all of the above persons or entities give immediate notice of this claim to all insurance carriers who provide cover for such claims. The likelihood is that all limited members will have similar claims. I am also writing to your insurance carrier to give notice of this claim.

I believe the following improper acts or omissions have occurred, and are occurring, and reserve the right to add other allegations as additional facts become known:

1. Violation of investment restrictions regarding size of loans as a percentage of total assets.
2. Violation of investment restrictions regarding loan quality.
3. Violation of investment restrictions regarding non-income producing properties.
4. Misrepresentation and concealment.
5. Making unauthorized loans against Fund assets.
6. Allowing tax liens and defaults on real estate and superior loans to remain uncured, thereby jeopardizing the collateral underlying the loans.
7. Failure to comply with the Operating Agreement in several particulars, including breach of fiduciary duties, failure to act prudently in making loans and managing cash, failure to make requested withdrawals, and failure to make proper accountings.
8. Self dealing.

I reserve all other rights to make additional claims against every above named person individually.

Very truly,

Timothy S. Jacobson sj

Timothy S. Jacobson
11304 116th Ave Ct NW
Gig Harbor, Wa 98329

EXHIBIT B

William R. Stevens, Manager
NW Commercial Loan Fund LLC
4540 S Adams St
Tacoma, WA 98409

January 11, 2002

Ladies and Gentlemen:

I am writing to all limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current. The member of the Fund is NW LLC. NW LLC has discontinued operations and is unable to remedy the borrower problems and has no capacity to manage or protect the Fund assets. The limited members asked legal counsel if they acted on their own behalf to protect their own investment would this be a breach of fiduciary responsibilities to other limited members. The opinion was that it would not be a breach of fiduciary responsibility to try to protect everyone's investment in the NW Commercial Loan Fund.

Consideration was given to three alternatives: 1. Wait for the Commercial Loan Fund borrowers to sell or refinance collateral. 2. Seek a remedy that could be receivership, bankruptcy or litigation. 3. Ask that the operating agreement be amended to transfer authority to control NW Commercial Loan Fund LLC from the member (NW LLC) to a majority of limited members.

The decision was to obtain a transfer of authority to a majority of limited members. The majority of limited members consented to a member (NW LLC) resolution, dated November 7, 2001, which ratified, confirmed and approved amendments to the Operating Agreement. A copy of CONSENT OF LIMITED MEMBERS OF NW COMMERCIAL LOAN FUND, LLC IN LIEU OF SPECIAL MEETING OF LIMITED MEMBERS is enclosed.

Since the borrowers did not have the capacity to protect the collateral or make payment to the NW Commercial Loan Fund LLC deeds in lieu of foreclosure were accepted. On November 30, 2001, the deeds in lieu of foreclosure were recorded.

Since November 30, 2001, William R. Stevens has been the manager of the Fund. Some of the limited members are trying to stabilize the collateral. The task to stabilize the collateral is very difficult and complex. The collateral is subject to debt, liens and property taxes in the approximate amount of $8,750,000. A construction loan in the amount of $5,750,000 matured on November 30, 2001. The past due interest was paid and the loan was converted to a two year maturity. The remaining debt involves four lenders. The loans are in default. Two loans are in foreclosure and the other two lenders are expected to start default actions. We are asking these four lenders for concessions and modifications.

EXHIBIT C

January 11, 2002

We have made preliminary inquiry into development issues such as water, septic, easements, restrictions, regulatory issues and site plan approvals.

All of the collateral is listed for sale and is being marketed.

Some of the limited members are funding immediate cash requirements. There will be additional cash requirements and or signature responsibility to protect the collateral. Our initial estimate of cash requirements for the next nine months is $300,000 to $500,000.

The distribution that was made earlier this year is a return of capital. For the tax year 2001, the limited members have no reportable income or loss. Please prepare your 2001 tax return with no income or deduction arising from NW Commercial Loan Fund LLC 2001 operations.

We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover. We will continue our efforts to stabilize the collateral for the benefit of all the members of NW Commercial Loan Fund. If you would like to meet with me or talk by telephone please call me at 253-671-1625.

Sincerely,

William R. Stevens
Manager

Enclosures: Consent of Limited Members, Listing of Limited Members

“F”

Judge Katherine M. Stolz
Hearing Date: May 12, 2006
Hearing Time: 9:00 AM

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation; TIMOTHY JACOBSON, HILARY GRENVILLE, Plaintiffs, v. MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company, Defendants.	NO. 04-2-10247-8 **DECLARATION OF LISA TALLMAN IN RESPONSE TO DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT**

Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101
TEL 206.340.2008 · FAX 206.340.1962

I, Lisa Tallman, hereby declare as follows:

1. I am a plaintiff herein, am competent to testify and make the following statements based upon my own personal knowledge and review of documents.

2. My former husband, Robert Mitchell, and I invested a substantial portion of our life savings into NW Commercial Loan Fund, LLC based upon representations and discussions Rob Mitchell had with Kevin Byrne and the other founders of the fund. It was always my understanding that these funds were to be used to purchase deeds of trust in commercial property that were to be generally "A" quality (i.e., conforming first-position notes) and part of a diversified portfolio. Based upon the representations and promises that were made, including those in the Private Placement Memorandum which I reviewed at one time years ago, I had always understood that this was a relatively safe and secure way for Rob and I to invest our money.

3. I understand that Mr. Byrne and Dr. Reid, who were the one-time managers of NW, LLC, which in turn acted as the manager for NW Commercial Loan Fund, LLC, are claiming that plaintiffs in this action should somehow be time barred from asserting their claims. I have received and reviewed Mr. Byrne's declaration submitted in support of his motion for summary judgment. It is inaccurate in many respects.

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SEATTLE, WA 98101

4. I should note that Rob Mitchell and I filed for divorced in 2001, which became finalized in January 2002. Throughout much of 2001 our relationship was strained and communication was limited.

5. In Mr. Byrne's declaration he references a number of meetings he had with various investors in NWCLF. I did not attend any of these meetings in person or through a representative. As I did not attend any of these alleged meetings, I have no idea what occurred or was discussed, or whether these meetings even occurred on the days that Mr. Byrne now claims.

6. Mr. Byrne claims that he had a meeting with Gary Grendahl in February of 2001 where Mr. Byrne indicated he would investigate the status of potential problems with NWCLF. I did not attend this meeting, nor was I advised of any problems regarding the fund or any "investigation" that Kevin Byrne or any other person might be undertaking at this time.

7. Mr. Byrne next claims that he had a meeting with Mr. Grendahl and Will Stevens in March and again in April of 2001. Again, I did not attend these meetings and was not aware of any problem with the fund or the security of my investments at this time. Nor did I ever receive a copy of Exhibit 6 to Mr. Byrne's declaration (entitled "NW Commercial Loan Fund – Balance Sheet") – at any time.

8. Mr. Byrne claims he had a meeting with Mr. Grendahl and Rob Mitchell in May of 2001. I did not attend this meeting, nor did I ever receive the

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document attached as Exhibit 7 to Mr. Byrne's declaration (entitled NW Commercial Loan Fund Detail of Loans Outstanding). Mr. Byrne also claims that there were discussions at this time about Mr. Grendahl or Rob taking over management of NWCLF. I was not involved in any of these discussions, if they even occurred, and I do not recall Rob discussing this possibility with me during this time frame.

9. Mr. Byrne references one or more meetings that allegedly took place in June and July of 2001. I did not attend any of these meetings, if they occurred. I did not know at this time that substantially all of NWCLF's investments had been used to purchase junior deeds of trust in a shopping center located in Graham.

10. Attached hereto and incorporated by reference as EXHIBIT A is a true and correct copy of a letter dated July 16, 2001 from Kevin Byrne regarding the status of our investments with NWCLF. Of note, this letter indicated that "[w]e are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you." My understanding at that time was that our investments were still secure and that Rob and I could expect full repayment.

11. To the best of my recollection, some time in early August of 2001, Rob and some of the other investors first learned that the majority of the fund's money had been invested in junior deeds of trust in a single commercial development in Graham. Up until that point, I had no idea that my investments were somehow in

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jeopardy. I certainly was not aware of any possible claim that I might have against the current defendants until at least August of 2001. Moreover, even as of August, 2001, it was my understanding that Mr. Byrne was still making assurances that the members of NWCLF could and would get repaid out of the liquidation of the property in Graham. Thus, it was not even clear at that point whether I had suffered any damages as a result of the fact that my investments had been used contrary to the terms of the Offering Memorandum.

12. At some point in or about November of 2001, Will Stevens took over management of the fund and also accepted "deeds in lieu of foreclosure" on the Graham property. This property included a partially constructed and partially developed shopping center. Rob and I had not invested our money into NWCLF to finance a shopping center that was owned by the defendants (and others). Mr. Stevens undertook an investigation of the status of this project. I believe that this took him several months. While this investigation was ongoing, it was still my hope and belief that Rob and I would be able to recover our investments in the fund out of an eventual sale of the properties. Until it could be determined the actual status of these properties and this project, it was not apparent to me whether I was going to be able to recover any of my investments. In other words, I did not know whether I had suffered any damages as a result of the wrongful conduct of the defendants

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(which was gradually being discovered by the investigation of Mr. Stevens and others in late 2001).

13. Some time after January 11, 2002, I received a letter from Will Stevens, acting as the manager of NWCLF. A true and correct copy of this document is attached as EXHIBIT B. Mr. Stevens detailed the results of his investigation and the possible plans of action. He noted that he had discovered that the loans on the property were in default and that he was working with the lenders to seek concessions in an attempt to keep the project viable and afloat. The concluding paragraph in Mr. Stevens' letter stated "We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover." It was not until I received a copy of this letter (some time in January 2002), that I first had any inkling that Rob and I might not recover our full investment. Prior to this time, even after the discovery of some of the facts in August of 2001, I was under the belief that the investors were expected to recover their investments based on a liquidation of the assets held by the fund.

14. Even after receipt of Mr. Stevens' letter, I know that I and other investors continued to hold out hope that we could recover some or all of our investments. Will Stevens, Gary Grendahl, Rob Mitchell, Tim Jacobson and others worked hard for several years in trying to get the Graham project on track and get it

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into a situation where it could be profitable or sold for enough money to make at least partial payments to the various investors. I am a licensed commercial real estate broker, and for some time period I also tried to help with the project, buy working to try to locate possible commercial tenants. For a variety of reasons, including the significant debt service that the fund inherited with this project, leasing out the Graham project was difficult.

15. I did not know the full scope of my damages (caused by defendants' conduct) until the Graham property was sold (some time in 2005) and it became apparent that Rob and I were not going to recoup our investments out of the sale of the project.

I hereby declare under penalty of perjury in the State of Washington that the foregoing statements are true and correct to the best of my knowledge and belief.

Dated this 4th day of May, 2006 at Yelm, Washington.

Lisa Tallman (f/k/a Mitchell)

Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101

LOAN HOLDINGS, LLC

7610 40TH STREET WEST
UNIVERSITY PLACE WA 98466
kbyrneloanholdings@hotmail.com

(253) 565-3932
FAX (253) 565-3973

July 16, 2001

Robert & Lisa Mitchell
9604 94th Ave NW
Gig Harbor WA 98332

Re: Financial Statements

Please find enclosed the quarterly financial statement on the NW Commercial Loan Fund. Your individual statements were mailed to you the week of July 2. If you did not receive one, or if you have any questions regarding the enclosed, please feel free to contact me at (253) 565-3932 or email me at the address above.

The line item for loans outstanding in the May 2001 financial statement included late charges shown in some of the outstanding balances. The June 2001 statement has removed those charges as they are difficult to collect in many cases. Those balances now reflect only principal and interest outstanding. The June statement also reflects fees due Loan Holdings, LLC. Those fees will continue to increase as they are not being collected until the Fund's limited members are paid.

We are anticipating a second payment out of the Fund within the next few weeks. That payment will be approximately 65% of the amount of the last check mailed to you.

Finally, we have received many of the votes necessary to proceed with the quarterly unaudited statements. The majority of preferred members have voted in favor of the unaudited statement. If you have not returned your voting form, I would respectfully request that you do so now. For those of you who have not voted, I have enclosed another form and return envelope.

Sincerely,

LOAN HOLDINGS, LLC

Kevin M. Byrne
Managing Member

KMB/ssm
Enc.

EXHIBIT A MITCHELL

William R. Stevens, Manager
NW Commercial Loan Fund LLC
4540 S Adams St
Tacoma, WA 98409

January 11, 2002

Ladies and Gentlemen:

I am writing to all limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current. The member of the Fund is NW LLC. NW LLC has discontinued operations and is unable to remedy the borrower problems and has no capacity to manage or protect the Fund assets. The limited members asked legal counsel if they acted on their own behalf to protect their own investment would this be a breach of fiduciary responsibilities to other limited members. The opinion was that it would not be a breach of fiduciary responsibility to try to protect everyone's investment in the NW Commercial Loan Fund.

Consideration was given to three alternatives: 1. Wait for the Commercial Loan Fund borrowers to sell or refinance collateral. 2. Seek a remedy that could be receivership, bankruptcy or litigation. 3. Ask that the operating agreement be amended to transfer authority to control NW Commercial Loan Fund LLC from the member (NW LLC) to a majority of limited members.

The decision was to obtain a transfer of authority to a majority of limited members. The majority of limited members consented to a member (NW LLC) resolution, dated November 7, 2001, which ratified, confirmed and approved amendments to the Operating Agreement. A copy of CONSENT OF LIMITED MEMBERS OF NW COMMERCIAL LOAN FUND, LLC IN LIEU OF SPECIAL MEETING OF LIMITED MEMBERS is enclosed.

Since the borrowers did not have the capacity to protect the collateral or make payment to the NW Commercial Loan Fund LLC deeds in lieu of foreclosure were accepted. On November 30, 2001, the deeds in lieu of foreclosure were recorded.

Since November 30, 2001, William R. Stevens has been the manager of the Fund. Some of the limited members are trying to stabilize the collateral. The task to stabilize the collateral is very difficult and complex. The collateral is subject to debt, liens and property taxes in the approximate amount of $8,750,000. A construction loan in the amount of $5,750,000 matured on November 30, 2001. The past due interest was paid and the loan was converted to a two year maturity. The remaining debt involves four lenders. The loans are in default. Two loans are in foreclosure and the other two lenders are expected to start default actions. We are asking these four lenders for concessions and modifications.

EXHIBIT B

We have made preliminary inquiry into development issues such as water, septic, easements, restrictions, regulatory issues and site plan approvals.

All of the collateral is listed for sale and is being marketed.

Some of the limited members are funding immediate cash requirements. There will be additional cash requirements and or signature responsibility to protect the collateral. Our initial estimate of cash requirements for the next nine months is $300,000 to $500,000.

The distribution that was made earlier this year is a return of capital. For the tax year 2001, the limited members have no reportable income or loss. Please prepare your 2001 tax return with no income or deduction arising from NW Commercial Loan Fund LLC 2001 operations.

We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover. We will continue our efforts to stabilize the collateral for the benefit of all the members of NW Commercial Loan Fund. If you would like to meet with me or talk by telephone please call me at 253-671-1625.

Sincerely,

William R. Stevens
Manager

Enclosures: Consent of Limited Members, Listing of Limited Members

“G”

Judge Katherine M. Stolz
Hearing Date: May 12, 2006
Hearing Time: 9:00 AM

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF PIERCE

ROBERT R. MITCHELL, LISA TALLMAN, MITCHELL FAMILY LIVING TRUST, GARY GRENDAHL, JOANN GRENDAHL, OLYMPIC CASCADE TIMBER, INC., a Washington Corporation, GM Joint Venture, a Washington Joint Venture Partnership, ROBERT R. MITCHELL, INC., a Washington Corporation Plaintiffs, v. MICHAEL A. PRICE and JANE DOE PRICE, husband and wife; THOMAS W. PRICE and JANE ROE PRICE, husband and wife; JAMES REID and SONJA REID, husband and wife; KEVIN M. BYRNE and MARY BYRNE, husband and wife; THOMAS H. OLDFIELD and JANE DOE OLDFIELD, husband and wife; NW, LLC a Washington Limited Liability Company, Defendants.	NO. 04-2-10247-8 **DECLARATION OF WILLIAM R. STEVENS IN RESPONSE TO MOTIONS FOR SUMMARY JUDGMENT**

WORKING COPY

Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101
TEL 206.340.2008 · FAX 206.340.1962

I, WILLIAM R. STEVENS, under penalty of perjury under the laws of the State of Washington, states:

1. I am now and at all times mentioned herein have been a resident of the State of Washington, over the age of eighteen years, and competent to be a witness in this cause. I make the following statements based upon my own personal knowledge, review of NW Commercial Loan Fund, LLC ("NWCLF") documents and discussions with limited members of NWCLF. I have also reviewed the declaration of Kevin Byrne, which has been submitted in this action in support of his motion for summary judgment.

2. This declaration is intended to supplement the previous declaration I signed in this matter in opposition to defendants' prior motions for summary judgment. The statements in that declaration are incorporated by reference herein.

3. NWCLF was formed in 1998. It was set up to invest in a diversified portfolio of first-position "A" quality promissory notes secured by commercial property. I was not an investor or member of NWCLF, but only became involved in 2001 when I was asked to look into the status of the fund by Gary Grendahl. NWCLF was initially managed by another LLC - NW, LLC. The members of NW, LLC were Kevin Byrne, Bob Coleman, James Reid, Mike Price and Tom Price.

4. Some time in or about March of 2001, along with Gary Grendahl, I met with Kevin Byrne at his office. I believe that this meeting was prompted by evasive

answers that Gary was getting from Kevin Byrne in response to Gary's request to withdraw some of his investments from NWCLF. Attorney Tom Oldfield was present. Mr. Oldfield said little, if anything, at this meeting. However, his presence reassured Gary and I that all was well with the fund, as we would have expected him to speak out if there were any concerns. My understanding was that he was representing NWCLF and its manager, NW, LLC, at this meeting. Byrne claims that at one or more meetings during this timeframe (February - March 2001, paragraphs 10 & 11 of his declaration) he told us that he would "investigate" certain issues created by a former manager, Bob Coleman. That is not true. There was no discussion of the need for any "investigation" or any problems that might allegedly have been created by Coleman. Byrne represented that all of the loans were secured by first position deeds of trust. Based on his representations, there were not concerns about the quality of the loans held by NWCLF, there were only concerns about its liquidity as the investors (Grendahl and Mitchell) had experienced some difficulty in withdrawing funds.

5. I met with Grendahl and Mitchell off and on over the next few months (March 2001 - July 2001). I tried to assist them in their investigation into NWCLF. Throughout this time period, Kevin Byrne continued to offer reassurances that everything was fine and that he was in the process of liquidating the loans owned by NWCLF. He repeatedly indicated that he expected a complete payout for all the

investors – as NWCLF's loan portfolio was gradually sold over time. In fact disbursements were made to the limited members in May and July of 2001.

6. In his declaration, Byrne claims that he provided Grendahl and Mitchell with a detailed balance sheet setting forth the loans owned by NWCLF in April of 2001 (Exhibits 6) of Byrne's declaration. This document was not produced in April of 2001. It, or documents similar in content, were not produced until August of 2001. Moreover, the "detail of loans outstanding" (Exhibit 7) referenced in paragraph 13 of Byrne's declaration was never produced. Throughout the summer of 2001, we never knew who the loans were to. We definitely did not know that the vast majority of the notes owned by NWCLF were in a single project in Graham, Washington, and that these loans were in second position. During this time period, Byrne consistently refused to provide documentation regarding the loans, claiming that the borrowers had privacy rights, and kept reassuring us that the fund was in good condition and that the investors should expect to receive a full pay out as the loans were liquidated over time.

7. Byrne claims that he had a meeting with me, Grendahl and Mitchell on June 5, 2001 where he disclosed the full nature of the loans owned by NWCLF. This is not true. Such a meeting occurred, but it was not until August 2001. To the best of my recollection, none of the information referenced in paragraph 15 of Byrne's declaration was disclosed prior to August of 2001.

LH&S Larson Hart & Shepherd
Attorneys At Law PLLC
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600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101

8. On or about August 6th, Mitchell, Grendahl and I met with Byrne. It was at this meeting that Byrne disclosed some of the information about the situation with NWCLF. In addition to having the date wrong (i.e., this did not occur in June 2001), Byrne also misstates what occurred at this meeting. He claims that he provided "boxes" of loan documents for us to review. That is flat out not true. Byrne would go into a back room and come out with selected documents. We were never allowed access to "boxes" of documents as he contends. Nor were we provided with a detail of the loans outstanding at this time. Attached hereto and incorporated herein as EXHIBIT A is a true and correct copy of a memo that I drafted on or about August 9, 2001 which reflected the meeting with Byrne in August of 2001. This memo accurately reflects my recollection of these meetings and indicates that this was the first time plaintiffs learned that the loans owned by NWCLF were in second position and were concentrated in one project (Graham Square).

9. At or about the August 6th meeting (but certainly not before) the parties agreed to hold off on seeking to put NWCLF into receivership while Byrne attempted to work with the various lenders and see if some sort of concessions could be reached to get the project back on track and ensure some chance of a payout to the limited members of NWCLF. At one of the meetings in or about August or September, Byrne was represented by bankruptcy counsel, Brian

Budsberg. Mr. Budsberg claimed that he had prepared bankruptcy schedules for Byrne and that Byrne was preparing to file bankruptcy.

10. Starting in August of 2001, Mitchell, Grendahl and I, along with Tim Jacobson, began an investigation into the loans held by NWCLF to determine if these loans could be liquidated to pay off the investors in NWCLF. Based on various representations by Byrne, there appeared to be equity in the Graham Square project and it appeared possible that there might be a way to liquate NWCLF's assets and ensure a complete payoff to the limited members. Throughout August of 2001 (and until some time in December of 2001 or January of 2002) we continued to believe there was a strong possibility that the limited members could recover their investments.

11. As set forth in more detail below, I eventually agreed to become the manager of NWCLF (in November 2001). After being appointed manager, I continued my investigation into NWCLF. The picture gradually became clearer, but only in bits and pieces, as Byrne still would not release all of the underlying loan files.

12. Attached hereto and incorporated by reference as EXHIBIT B is a true and correct copy of a memo that I prepared entitled "NW Commercial Loan Fund, LLC History of the LLC". This was based upon my review of NWCLF documents, to the extent available, and my investigation as of early December 2001. I don't

recall the precise date that I drafted this document, but it would have been in December of 2001 or early January of 2002. Of note, this document is consistent with my memory in that it states:

> *In August of 2001 under threat of receivership litigation information is released to some limited members that NW, LLC as member did not comply with the private placement memorandum and the limited members investment is at risk of substantial impairment.*

13. After several meetings with Kevin Byrne and others from August through November 2001, it was agreed that the owners of the Graham Square project (Graham Square I, LLC, Graham Square II, LLC and Inline, LLC) would provide NWCLF with deeds in lieu of foreclosure - transferring ownership of the Graham Square project to the fund. On the day that the deeds were recorded, November 30, 2001, a foreclosure sale occurred conducted by Graham Square Associates. As a result of this sale, NWCLF lost one of the parcels of property in the project. NWCLF made efforts to cure the loan delinquencies to prevent or unwind this sale but was unsuccessful. Of note this particular parcel was part of the project that was fully developed and fully leased out, and the loss of this property deprived the project of a source of income (not to mention possible equity) from the very start. This property subsequently sold to a party by the name of Zenchak for approximately $3.3 million. Had NWCLF been able to retain this property, it could have realized approximately $1 million in equity, which could have been distributed to the limited members or used as capital to complete the Graham Square project

and ultimately allow it to be sold at a profit. Not to mention that the loan balance on that parcel ($126,591) was also lost.

14. On December 27, 2001 I wrote a letter to defendants laying out the results of my investigation into NWCLF to date. A true and correct copy of this letter is attached hereto and incorporated by reference as EXHIBIT C.

15. On January 11, 2002 I wrote a letter to all of the limited members of NWCLF. A true and correct copy of this letter is attached hereto and incorporated by reference as EXHIBIT D. Again, this letter is consistent with my memory that we had not learned any real information about the loans owned by NWCLF until the August 2001 meeting. Of note, my letter states:

> *I am writing to all the limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings, LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all of the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current.*

16. Kevin Byrne has claimed that he provided access to loan documentation and other material back in the summer of 2001. For the most part, and as set forth in more detail herein, that is inaccurate. Moreover, it was not until January 22, 2002 that I received 2 boxes of NWCLF records from Byrne. Attached hereto and incorporated by reference as EXHIBIT E is a true and correct copy of the

letter I sent Byrne on March 13, 2002 confirming receipt of these materials. Of note, the material Byrne provided me was less than complete - it did not include the loan files, bank statements and other financial records that I had been requesting from NWCLF for months. In fact, this information was never produced.

17. When NWCLF acquired title to the Graham Square project in November 2001 and I took over as manager of the fund, we found ourselves in a constant crisis mode. The various parcels of property were subject to approximately $8,750,000 in debt, including a construction loan in first position in the amount of $5,750,000, which had matured on November 30, 2001. Most of the loans were in default. By January of 2002, there were two pending foreclosure actions. An unsecured loan from Pacifica Bank in the amount of $500,000, personally guaranteed by Kevin Byrne and James Reid, was substantially delinquent. In or about December of 2001, Pacifica Bank filed a lawsuit seeking to collect on its debt. In January of 2002, it sought an order to allow it to attach the rental income from the project and seeking a TRO to prevent NWCLF from further encumbering its assets. This precluded NWCLF from granting security interests to members who were otherwise willing to make loans to the fund. This was a major problem as the limited members could not put additional money into the project. For the first several months after I took over as manager, NWCLF had to react and attempt to address one crisis after another. All the while we were attempting to negotiate

concessions with the various lenders to buy NWCLF some time to get the project back on its feet.

18. The lawsuit by Pacifica Bank, and its effort to garnish the rental income of the Graham Square project, left NWCLF with little choice and ultimately the decision was made to file for bankruptcy protection in 2002. This was done merely to buy some time and as a last resort.

19. Lot 2 of the Graham Square project was vacant land in which NWCLF had a second deed of trust. Based on my investigations after the fact in the Fall of 2001, I learned the following: in the Spring of 2001 there was a pending sale of this lot to a tire store; in early June 2001, James Reid deposited approximately $185,000 into NWCLF, which appears to have been used to fund partial disbursements to the limited members in or about July of 2001; at some later time, Byrne caused this property to be deeded to James Reid. Based upon my investigations and review of NWCLF documents, I determined that NWCLF had received less than adequate consideration for this property. I had a meeting with Tom Oldfield on or about March 19, 2002 to discuss this issue. Mr. Oldfield was representing James Reid. This, despite the fact that Oldfield had previously represented NW, LLC and NWCLF. Attached hereto and incorporated by reference as EXHIBIT F is a true and correct copy of my memo dated March 19, 2002 regarding my meeting with Tom Oldfield. This exhibit accurately reflects my recollection of this discussion.

20. Attached hereto and incorporated by reference as EXHIBIT G is a Notice of Default issued by attorney Tom Oldfield on behalf of Graham-WSB Note Collection, LLC. To my knowledge, Graham-WSB Note Collection, LLC was an entity formed by Byrne which bought out and took an assignment of the loan owed by Washington State Bank (which was secured by a portion of the Graham Square property). This foreclosure was directly adverse to the interests of NWCLF and is continuing evidence of Oldfield's disregard of conflicts of interest which further compounded NWCLF's financial viability.

21. Regarding the actions (or inactions of attorney Tom Oldfield), it is my opinion that, had he either disclosed the problems with NWCLF early on (March of 2001 or earlier) or withdrawn due to his conflict of interest between NW, LLC, NWCLF and Kevin Byrne, the investors could likely well have avoided and/or minimized some of their losses and damages. An extra 5-6 months in this matter would have been very significant. When the fund inherited the Graham project in November 2001, it was in pure crisis mode. As noted above, on the day of the receipt of the deeds in lieu of foreclosure, NWCLF lost one of the significant parcels to a foreclosure. From the date NWCLF acquired the Graham property it was attempting to respond to one emergency after another. Rob Mitchell, Tim Jacobson and Gary Grendahl loaned money to the project to try to keep it afloat and to give it working capital. It took months for me, with the help of others, to sort out the status

of various leases and other problems with the property. An additional 5-6 months would have given NWCLF and its investors more time to try to stabilize the project, by working with lenders, so that the property could be sold and any equity could be pulled out to pay off the limited members of NWCLF. Byrne and Al Olsen had represented that there were several parties with earnest money agreements waiting to purchase portions of the project, but that certain conditions needed to be satisfied. All of these issues required time, which we did not have when NWCLF inherited the project in November 2001. These issues included: time to review the status of the Site Plan with the county; time to determine the permitted uses for the property; time to evaluate wetland limitations; time to evaluate road approach issues with regards to traffic lights and turn lanes; time to determine the liability or estimated costs for pending improvements to the Meridian Street property; time sort out water rights issues; and time to sort out construction costs for interior road construction. Byrne and Al Olsen had indicated that there were earnest money agreements to purchase various parcels - but only if these prior issues were addressed, which we did not have time to do. We would not have been in a reactive crisis mode. There would have been more time to attempt to work out compromises with lenders and to try to sell parcels of the property. As it was, when the fund acquired the property there was only time to react to the problems and demands for payment which were coming in fast and furious. I cannot say that the investors would have recovered all

of their investment had Oldfield disclosed his conflict (or the situation that he had learned from Byrne - his landlord), but I can say with reasonable confidence that it is quite likely (more probable than not) that investors could have limited or mitigated their damages and most likely could have been avoided putting the fund into bankruptcy, which resulted in additional costs and added a layer of difficulty to the entire mess that was inherited from defendants.

I hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

DATED this 5th day of May, 2006 at TACOMA, Washington.

William R Stevens

WILLIAM R. STEVENS

LH&S Larson Hart & Shepherd
Attorneys At Law PLLC
ONE UNION SQUARE
600 UNIVERSITY STREET · SUITE 1730
SEATTLE, WA 98101

Stand by on any receivorship action

Stand by on any action against NW as fund manager

Stand by on any action against Kevin or Coleman for gross negligence or other causes

Maintain informal communications

Help and brainstorm
Monitor status
Obtain and verify more information

Strongly recommend that property listing be changed from Axiom

Strongly recommend that borrower dysfunction be cured by either

The borrower LLC's eject the dysfunctional members

Loan Fund accelarates loans and obtains a Deed in Lieu of forfeiture

Fund Manager provides for equitable treatment for Olson

Strongly recommend that Kevin takes lead in lender relationships with Banks

Strongly recommend that communication be provided to Fund members

Distributions are not on track

Borowers cannot make payments unless property is sold or refinanced

Concentration of risk

All collateral is in second position

EXHIBIT A

NW COMMERCIAL LOAN FUND LLC
History of the LLC

NW LLC made loans to borrowers that were 50% owned by 100% of the members of NW LLC

NW LLC loans (self dealing) made by year:

1995	1996	1997	1998	1999	Total
255,000	175,000		2,335,852	300,000	
460,000	1,350,000				
	46,205				
715,000	1,571,205	0	2,335,852	300,000	4,922,057

NW Commercial Loan Fund is formed 5/11/1998

All of the $4,922,057 in self dealing loans were then sold to the NW Commercial Loan Fund LLC

The tax returns of NW Commercial Loan Fund LLC lists the following:

	1998	1999	2000
Loan Receivable NW LLC	2,445,792	107,895	13,761
Guaranteed Loan Receivable		4,146,774	4,143,307

During year 2000 NW LLC contracts its operations and winds down its business.

In January 2001 Bob Coleman resigns. NW LLC has no employees during 2001. Kevin Byrne continues to wind down NW LLC.

Starting in 1999 NW Commercial Loan Fund LLC struggles to meet withdrawal request of limited members. Eventually NW Commercial Loan Fund LLC defaults on its obligation to make withdrawal payments. The Fund provides a schedule of expected cash flows that will liquidate the limited members.

In August of 2001 under threat of receivership litigation information is released to some limited members that NW LLC as member did not comply with the private placement memorandum and the limited members investment is at risk of substantial impairment.

On November 30, 2001 a deed in lieu of foreclosure is accepted by the Fund. Documents are released from escrow which transfer control of the fund to the limited members and appoint Will Stevens as manager.

EXHIBIT B

WILLIAM R. STEVENS
MANAGER,
NORTHWEST COMMERCIAL LOAN FUND, L.L.C.
4540 South Adams St.
Tacoma, WA 98409
Tel: (253)-284-2884
Fax: (253)-284-2890

December 27, 2001

Mr. Thomas H. Oldfield
Counsel for NW L.L.C.
Sloan, Bobrick & Oldfield, Inc. P.S.
7610 – 40th Street West
University Place, WA 98464

Mr. Kevin Byrne
7610 – 40th Street West
University Place, WA 98464

NW L.L.C.
7610 – 40th Street West
University Place, WA 98464

Thomas Price
7610 – 40th Street West
University Place, WA 98464

Michael Price
7610 – 40th Street West
University Place, WA 98464

Financial Solutions Insurance Services, Inc.
Bankers Insurance Service Division
10 South LaSalle St.
Chicago, Illinois 60603

Dr. James Reid
7610 – 40th Street West
University Place, WA 98464

Robert Coleman
7610 – 40th Street West
University Place, WA 98464

Re: NW L.L.C.—Notice of Claims including claims covered by Mortgage Bankers Bond Policy No. MBB-00-00211 and any other applicable policy

Gentlemen:

I am the current Manager of NW Commercial Loan Fund, LLC. On behalf of the NW Commercial Loan Fund and each of the limited members of the NW Commercial Loan Fund, whose names are attached, I hereby give notice of claim against NW L.C.C., Mr. Kevin Byrne, Dr

NWCLF 00755

EXHIBIT C

James Reid, Robert Coleman, Michael Price, and Thomas Price for all losses and damages they have suffered, or will suffer, as a result of any errors and omissions, breach of fiduciary duties, self dealing, fraud, dishonesty, defalcation while acting in a fiduciary capacity, embezzlement, larceny, or any other improper actions taken by any of them in the management of the NW Commercial Loan Fund, LLC and the protection of the limited members' membership and economic interests. We demand that all of the above persons or entities give immediate notice of this claim to all insurance carriers who provide cover or may provide cover for such claims. This letter is being addressed to Financial Solutions Services, Inc. to ensure notice is given to one applicable policy.

I believe the NW Commercial Loan Fund, LLC and its limited members have reasonable grounds for believing improper acts, errors or omissions, including without limitation the ones set out below, have occurred on or before January 6, 2001, and they reserve the right to add other allegations as additional facts become known:

1. NW Commercial Loan Fund, and some or all of its Managers, Members and employees (collectively "NW"), while acting as Manager and in a fiduciary capacity for NW Commercial Loan Fund, LLC, converted NW Commercial Loan Fund's money by theft or other dishonest act with the manifest intent to obtain improper personal financial gain.

2. NW used the money to loan to or otherwise convert the money for use by other companies substantially owned by the Manager, Members and employees of NW.

3. The foregoing acts constitute self-dealing, fraud, embezzlement, larceny, defalcation by one in a fiduciary capacity, bad faith and further violate the investment restrictions regarding size of loans as a percentage of total assets, loan quality, and non-income producing properties.

4. After committing the foregoing acts, NW failed to take other steps to protect the interests of NW Commercial Loan Fund and its limited members.

5. After committing foregoing alleged acts, NW actively and intentionally concealed and misrepresented what it had done from the NW Commercial Loan Fund and its limited members.

6. After committing the foregoing acts, NW made false statements to NW Commercial Loan Fund and its limited members.

7. As a result of the foregoing acts, NW Commercial Loan Fund and its limited members have suffered losses and damages and risk losing some or all of their membership and economic interests.

I urge everyone to take the steps necessary to prevent further harm and to compensate NW Commercial Loan Fund and its limited members for the losses suffered.

Very truly yours,

William R. Stevens
Manager, NW Commercial Loan Fund, LLC

William R. Stevens, Manager
NW Commercial Loan Fund LLC
4540 S Adams St
Tacoma, WA 98409

January 11, 2002

Ladies and Gentlemen:

I am writing to all limited members of the NW Commercial Loan Fund LLC. This letter is notification to you of acts and events that have occurred. Some limited members have had meetings with Loan Holdings LLC, the successor Commercial Loan Fund manager to NW LLC. It was disclosed to us in August 2001 that distributions to fund members are not on track, the borrowers cannot repay the loans owned by the Fund unless the collateral was sold or refinanced, substantially all the collateral is in second position, that the borrowers are in default on a portion of the first position debt and the borrowers will be defaulting on the first position debt that is current. The member of the Fund is NW LLC. NW LLC has discontinued operations and is unable to remedy the borrower problems and has no capacity to manage or protect the Fund assets. The limited members asked legal counsel if they acted on their own behalf to protect their own investment would this be a breach of fiduciary responsibilities to other limited members. The opinion was that it would not be a breach of fiduciary responsibility to try to protect everyone's investment in the NW Commercial Loan Fund.

Consideration was given to three alternatives: 1. Wait for the Commercial Loan Fund borrowers to sell or refinance collateral. 2. Seek a remedy that could be receivership, bankruptcy or litigation. 3. Ask that the operating agreement be amended to transfer authority to control NW Commercial Loan Fund LLC from the member (NW LLC) to a majority of limited members.

The decision was to obtain a transfer of authority to a majority of limited members. The majority of limited members consented to a member (NW LLC) resolution, dated November 7, 2001, which ratified, confirmed and approved amendments to the Operating Agreement. A copy of CONSENT OF LIMITED MEMBERS OF NW COMMERCIAL LOAN FUND, LLC IN LIEU OF SPECIAL MEETING OF LIMITED MEMBERS is enclosed.

Since the borrowers did not have the capacity to protect the collateral or make payment to the NW Commercial Loan Fund LLC deeds in lieu of foreclosure were accepted. On November 30, 2001, the deeds in lieu of foreclosure were recorded.

Since November 30, 2001, William R. Stevens has been the manager of the Fund. Some of the limited members are trying to stabilize the collateral. The task to stabilize the collateral is very difficult and complex. The collateral is subject to debt, liens and property taxes in the approximate amount of $8,750,000. A construction loan in the amount of $5,750,000 matured on November 30, 2001. The past due interest was paid and the loan was converted to a two year maturity. The remaining debt involves four lenders. The loans are in default. Two loans are in foreclosure and the other two lenders are expected to start default actions. We are asking these four lenders for concessions and modifications.

EXHIBIT D

January 11, 2002

We have made preliminary inquiry into development issues such as water, septic, easements, restrictions, regulatory issues and site plan approvals.

All of the collateral is listed for sale and is being marketed.

Some of the limited members are funding immediate cash requirements. There will be additional cash requirements and or signature responsibility to protect the collateral. Our initial estimate of cash requirements for the next nine months is $300,000 to $500,000.

The distribution that was made earlier this year is a return of capital. For the tax year 2001, the limited members have no reportable income or loss. Please prepare your 2001 tax return with no income or deduction arising from NW Commercial Loan Fund LLC 2001 operations.

We have no opinion of the value of the collateral of NW Commercial Loan Fund. There is substantial uncertainty to what amount if any that each investor will recover. We will continue our efforts to stabilize the collateral for the benefit of all the members of NW Commercial Loan Fund. If you would like to meet with me or talk by telephone please call me at 253-671-1625.

Sincerely,

William R. Stevens
Manager

Enclosures: Consent of Limited Members, Listing of Limited Members

WILLIAM R STEVENS, MANAGER
NW COMMERCIAL LOAN FUND LLC
4540 South Adams St
Tacoma, Wa 98409

Sent by Fax

March 13, 2002

Kevin Byrne
Loan Holdings LLC
7610 40th St West
University Place, Wa 98466

Dear Kevin,

I want to acknowledge that I took possession of two boxes of records of NWCLF on January 22, 2002. The boxes contained information on the capital accounts, the Levin loan file, the Pacifica loan and some banking detail.

This letter is a request to provide to me any and all NW Commercial Loan Fund LLC records and files. This would include loan files, bank statements, financial statements, correspondence and all other records, which are the property of NW Commercial Loan Fund LLC.

If you need access to records, which you have released to me, I will make them available to you.

Sincerely

William R Stevens

William R Stevens, Manager
NW Commercial Loan Fund LLC

EXHIBIT E

NW COMMERCIAL LOAN FUND LLC
Lot 2
Meeting with Tom Oldfield

I presented my position that Lot 2 was deeded to Graham Square II without sufficient consideration. Mr. Oldfield had no information that would verify or disprove my concern. We have asked Chicago Title to run a history of chain of title. I suggested to Mr. Oldfield that Mr. Byrne should have in loan file 1545 title history that would support or deny my position.

I presented two settlement options:

1. A payment of $173,000 to NWCLF and NWCLF would remit to Graham Square Associates the deed release amount of $41,040

or

2. Convey Lot 2 to NWCLF and the fund would give a Note and D/T back to Dr. Reid. The note would be for $150,000 and due upon sale of Lot 2.

Mr. Oldfield says that Dr Reid could not afford either option.

I replied that the Fund and Dr Reid both need to take a loss on this transaction.

Mr. Oldfield is going to look at the title information in loan file 1545 and get back to me.

Will Stevens
March 19, 2002

EXHIBIT F

NOTICE OF DEFAULT
PURSUANT TO THE REVISED CODE OF WASHINGTON
CHAPTER 61.24, ET. SEQ.

TO: Graham Square II, LLC
Allen C. Olson, Manager
7801 Bridgeport Way West, No. 200
Lakewood, WA 98499

1. **DEFAULT:**

You are hereby notified that the beneficiary, Graham-WSB Note Collection, LLC, has declared you in default on the obligation secured by a Deed of Trust recorded under Auditor's/Recorder's Number 9907130283 of the records of Pierce County, Washington, the beneficial interest of which is held by Graham-WSB Note Collection, LLC, and which Deed of Trust encumbers the following described real property in said County:

SEE EXHIBIT A ATTACHED HERETO AND INCORPORATED HEREIN BY THIS REFERENCE

2. **STATEMENT OF DEFAULT AND ITEMIZED ACCOUNT OF AMOUNT IN ARREARS:**

The beneficiary alleges that you are in default for failure to pay the following past-due amounts which are in arrears:

Single Payment:	
Single payment due 6/30/01	$360,000.00
Late Charges:	
1 (one) late charges of $18,000.00	$ 18,000.00
Interest:	
Interest through September 11, 2002	$ 81,133.00
Interest from September 11 through October 31, 2002	$ 8,876.50
TOTAL SINGLE PAYMENT, LATE CHARGE AND INTEREST:	**$468,009.50**

3. OTHER CHARGES, COSTS AND FEES:

In addition to the amounts in arrears specified above, you are or may be obligated to pay the following charges, costs and fees to reinstate the deed of trust if reinstatement is made before recording of the Notice of Trustee's Sale:

a.	Cost of title report for foreclosure (estimated)	$1,500.00
b.	Service or posting Notice of Default (estimated)	$ 50.00
c.	Postage	$ 5.00
d.	Copying	$ 5.00
e.	Attorneys' fee (estimated)	$ 500.00
f.	Inspection fee	$ 50.00
g.	Long distance telephone charges	$
TOTAL CHARGES, COSTS AND FEES:		**$2,110.00**

4. REINSTATEMENT: **IMPORTANT! PLEASE READ**

The total amount necessary to reinstate your note and deed of trust before the recording of the Notice of Trustee's Sale is the sum of Paragraphs 2 and 3 above is **$470,119.50** PLUS the amount of any monthly payments and late charges which may fall due after the date of this Notice of Default. In the event you tender reinstatement before the recording of the Notice of Trustee's Sale, you must be sure to add to the amount shown above any monthly payments and/or late charges which fall due after the date of this Notice of Default.

No additional fees or costs will be incurred prior to the time the Notice of Trustee's Sale is recorded; the Notice of Trustee's Sale may be recorded after thirty (30) days from the date this notice is mailed and served upon you or posted upon the premises, whichever occurs latest.

Reinstatement monies may be tendered to:

SLOAN BOBRICK & OLDFIELD, INC. P.S.
7610 - 40TH STREET WEST
P.O. BOX 65590
UNIVERSITY PLACE, WA 98464

5. CONSEQUENCES OF DEFAULT:

a. Failure to cure said alleged default within thirty days of the mailing of this notice, or if personally served, within thirty days of the date of personal service thereof, may lead to the recording, transmittal and publication of a Notice of Trustee's

PARCEL A:

THE WEST HALF OF THE SOUTH HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 9, TOWNSHIP 18 NORTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, IN PIERCE COUNTY, WASHINGTON.

EXCEPT THE WEST 132 FEET THEREOF.

PARCEL B:

THAT PORTION OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 9, TOWNSHIP 18 NORTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT THAT IS 109 FEET SOUTH OF THE NORTHEAST CORNER OF THE SOUTH HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SAID SECTION; THENCE SOUTH 88°59'30" WEST, A DISTANCE OF 75.01 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING SOUTH 88°59'30" WEST A DISTANCE OF 134.19 FEET; THENCE NORTHWESTERLY 153.95 FEET TO A POINT ON THE NORTH LINE OF THE SOUTH HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SAID SECTION, WHICH IS 310.90 FEET WEST OF THE EASTERLY BOUNDARY OF SAID SECTION; THENCE WEST ALONG SAID NORTH LINE 345.98 FEET TO THE NORTHWEST CORNER OF THE EAST HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER; THENCE SOUTH TO THE SOUTHWEST CORNER OF THE EAST HALF OF THE SOUTH HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SAID SECTION; THENCE EAST TO A POINT 375.01 FEET WEST OF THE EASTERLY BOUNDARY LINE OF SAID SECTION; THENCE NORTH 01°02'51" EAST 30 FEET; THENCE NORTH 63°14'35" EAST 156.50 FEET TO A POINT 103 FEET NORTH OF THE SOUTH LINE OF SAID SUBDIVISION; THENCE NORTHEASTERLY 168.75 FEET TO A POINT ON THE WEST LINE OF STATE HIGHWAY NO. 5N, (SR. 161) NORTH 158 FEET OF THE SOUTHEAST CORNER OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SAID SECTION; THENCE NORTHERLY ALONG SAID BOUNDARY LINE TO THE TRUE POINT OF BEGINNING, IN PIERCE COUNTY, WASHINGTON.

SITUATE IN THE COUNTY OF PIERCE, STATE OF WASHINGTON.

PARCEL C:

THAT PORTION OF THE NORTH HALF OF THE SOUTH HALF OF THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 9, TOWNSHIP 18 NORTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN DESCRIBED AS FOLLOWS:

COMMENCING AT THE SOUTHEAST CORNER OF SAID TRACT; THENCE WEST ALONG THE SOUTH LINE OF SAID TRACT, A DISTANCE OF 310.90 FEET TO THE TRUE POINT OF BEGINNING; THENCE NORTHWESTERLY A DISTANCE OF 97.50 FEET TO A POINT WHICH IS 72.78 FEET NORTH OF THE SOUTH LINE OF SAID TRACT; THENCE WEST PARALLEL WITH THE SOUTH LINE OF SAID TRACT, A DISTANCE OF 281.10 FEET; THENCE SOUTH 72.78 FEET TO THE SOUTH LINE OF SAID TRACT TO A POINT WHICH IS 345.98 FEET WEST OF THE TRUE POINT OF BEGINNING; THENCE EAST TO THE POINT OF BEGINNING, IN PIERCE COUNTY, WASHINGTON.

SITUATE IN THE COUNTY OF PIERCE, STATE OF WASHINGTON.

Sale, and the property described in Paragraph 1 above may be sold at public auction at a date no less than 120 days in the future.

b. The effect of the recording, transmittal and publication of a Notice of Trustee's Sale will be to (i) increase the costs and fees and (ii) publicize the default and advertise the property described herein for sale.

c. The effect of a trustee's sale of the above-described property by the trustee will be to deprive you, or your successor in interest, and all of those who hold by, through or under you of all of your or their interest in the property described in Paragraph 1 above and satisfy the obligation secured by the above deed of trust.

6. **RECOURSE TO COURTS:**

You or your successor(s) in interest have recourse to the courts pursuant to RCW 61.24.130 to contest the alleged default on any proper ground.

DATED this 4th day of November, 2002.

GRAHAM-WSB NOTE COLLECTION, LLC

By: Thomas H. Oldfield, WSBA# 2651,
Attorney for Graham-WSB Note Collection, LLC

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